UK and Germany produce cascade of national technical regulations, says Bangemann

Eurosceptics told to direct wrath home

By Emma Tucker in Brussels

Eurosceptics in the UK, Germany and France were yesterday urged to redirect their wrath against Brussels to national governments, the guilty parties when it comes to red tape.

Industry Commissioner Mr Martin Bangemann said it was member states and not the Commission that churned out worthless and superfluous regulations – the UK and Germany being the joint worst offenders.

EU monitoring of technical regulations imposed on products revealed a "cascade of national technical regulations" in areas the Commission was happy to leave alone. For example, Britain – the most vociferous in calling for simplification of regulation – is the only member state that wants to regulate the production of pens and pencils.

"I would urge our UK colleagues to look at the figures," *said a triumphant Mr Bangemann.* "It is going to turn their universe on its head."

In 35 years, said Mr Bangemann, the European Commission was responsible for 415 directives. This compares with 1,136 national regulations produced by member states between 1992 and 1994.

Of these, 21 per cent were produced by the UK and 21 per cent by Germany. These two countries, together with France, the Netherlands and Denmark, produced between them over 75 per cent of the *draft regulations notified to* the Commission as part of its monitoring of the single market. Such zealousness is often unnecessary, says the Commission, and places unnecessary costs on producers.

"In order to be entitled to place his products on the internal market, the producer should only have to comply with the simplest, most uniform and most transparent legal and technical obligations that are compatible with the protection of the public interest," it says in a report looking *at national regulations affecting* products in the internal market.

Britain wants to introduce national regulation on pens and pencils banning specific poisonous substances, rather than allowing them to be covered by general product safety regulations. Its plan has to be notified to other member states who may object that such a regulation would undermine the free movement of goods within the single market. If there are no objections, Britain can go ahead. Above all, the *Commission does not want* national regulations to obstruct the single market.

Another example is cots. Most member states are satisfied that cots should simply have to meet general product safety standards in order to circulate freely within the internal market. But France and the Netherlands felt extra legislation was needed.

Mr Mario Monti, the single market commissioner, is preparing to examine ways of simplifying regulation in sectors where most complaints have *been registered. These include* foodstuffs, phytosanitary products, and public procurement.

Slovenia approves landmark debt deal

By Kevin Done in London

The Slovenian parliament has approved a landmark deal between the government and the London Club of 400 commercial banks over the share of former Yugoslavia's foreign debt to be shouldered by Slovenia.

Slovenia becomes the first of the former Yugoslav states to finalise an agreement with its foreign creditors, and the deal could set a precedent for the banks' separate negotiations with Croatia and Macedonia and ultimately with Bosnia and rump Yugoslavia (Serbia and Montenegro).

The parliament's backing removes the last significant obstacle to Slovenia, the most developed of the six former Yugoslav republics, building an independent presence in the international capital markets.

It is planning to launch its maiden issue in the Eurobond market later this year and is currently seeking its first investment grade rating for new debt from the leading international rating agencies.

Slovenia, which became independent in 1991, has been working for five years to extricate itself from the problems of the debts amassed by former Yugoslavia and to create an *independent country risk* assessment to allow Slovenian entities normal access to the international financial markets.

Under the deal, Slovenia is taking over 18 per cent of the total outstanding obligations of former Yugoslavia to the commercial banks, which totalled \$5.58bn at mid-January exchange rates including principal (\$4.4bn) and interest.

The debt arises from the so-called New Financing Agreement (NFA) reached in 1988 with the London Club, the last debt restructuring deal made by Belgrade before the break-up of Yugoslavia in 1991.

In return for taking on 18 per cent of this debt Slovenia will be released from the onerous "joint and several liability" clause included in the 1988 agreement, allowing it to sever its final links with the debts of former Yugoslavia.

Slovenia is issuing \$822m of government bonds in exchange for its share of the NFA debt with the same conditions as in the 1988 NFA agreement, namely maturity in 2006 and an interest rate of Libor plus 13/16 per cent. The bonds, to be denominated in D-Marks and US dollars, will be issued before the end of June and will be listed on the Luxembourg stock exchange.

Excluded from the deal with the commercial banks are NFA creditors from rump Yugoslavia, with which Slovenia is still in dispute over its claim for a share of the assets of former Yugoslavia.

Eurostat-harmonised inflation data focus fresh attention on Maastricht Treaty

UK, Italy and Spain may fail EU criterion

By Gillian Tett, Economics Correspondent

The UK, Italy and Spain risk failing to meet the inflation criterion for joining the proposed single European currency unless price pressures ease significantly, official figures yesterday suggested.

The first ever harmonised price data from the European Commission shows that these three countries' inflation rates remaining well above the European Union average.

The data, drawn up by Eurostat, the EU statistical office, are provisional. The figures exclude many crucial areas of consumer spending because EU statisticians have not yet agreed how to create a common inflation methodology.

Consequently, the EU figures differ from national data: price growth has apparently been raised in countries such as Italy, the UK and Finland – and lowered in the Netherlands, Germany and Belgium.

Publication of the data is likely to focus fresh attention on the Maastricht inflation criterion, which has received less visibility in recent months than other criteria such as debt levels. The treaty specifies that countries wishing to join a single currency must have an average inflation rate (over a 12 month period) within 1.5 percentage points of the average best three EU rates.

Assessing precisely which countries will meet this is impossible ahead of the judgment date for the first wave of entrants, planned for early 1998. One reason is that the data are lacking: although the Commission published semi-harmonised data yesterday, it plans a more refined series next year.

This later series could yield different results again, depending on what goods are included. Yesterday's data for example, excluded about 20 per cent of UK spending, and 12 per cent of French spending.

However, the other reason why it is difficult to make firm judgments is that it is uncertain what the "floor" of the inflation rate will be, since that depends on the performance of the best three.

The recent inclusion of Finland in the EU, for example, has lowered the average floor markedly. According to yesterday's data, the average of the best three performers last month was about 1.1 per cent. Consequently, if January's data alone were used to measure the Maastricht criterion, then the UK, Spain, Italy and Greece would all fail.

However, the EU series is volatile. If the calculations had been done in December, for example, then the average of the best three would have been 0.8 per cent. At that level, using December's EU figures, Sweden and Portugal would have also been excluded.

The Maastricht inflation scoreboard

Inflation rate Jan 1996*	Commission figure	National figure
✓✓✓ Setting the standard		
Finland	0.8%	0.5%
Luxembourg	1.1%	1.1%
Netherlands	1.3%	1.9%
✓✓ Doing well		
Germany	1.4%	1.6%
Belgium	1.6%	2.0%
Sweden	1.6%	2.0%
Austria	1.7%	N/A
Denmark	1.8%	1.7%
France	2.0%	2.0%
Ireland	N/A	2.4%
Portugal	2.3%	2.5%
✓ Still struggling		
UK	3.2%	2.9%
Spain	3.9%	3.9%
Italy	5.7%	5.4%
Greece	8.1%	8.4%

* European Commission provisional statistics

Germany loses TNT hub to Belgium

By Wolfgang Münchau in Frankfurt

TNT Worldwide Express, the international transport group, is to move its European hub from Cologne to nearby Liège in Belgium, fuelling the bitter debate in Germany about over-regulation and the country's loss of competitiveness.

TNT's planned move across the border, which will probably lead to some 600 job losses in Cologne next year, has been seized upon by German politicians and industry organisations as an example of an increasingly hostile business climate, dogged by high wage and social costs and recklessly enacted environmental legislation. The case is scheduled to be debated in the Bundestag, the lower house of the German parliament, next week.

Mr Lothar Ruschmeier, chief executive of Cologne city council, called the move a "catastrophe" for the city because of the impact on jobs and the potential knock-on effects, reflecting fears that other transport companies may follow suit.

TNT blamed its decision partly on increasingly hostility by the Social Democrat-Green government of North Rhine/Westphalia, Germany's most populous state, and specifically on the campaign by the Greens for a night-time flying ban.

Mr Dietmar Kablitz, a board member of TNT Express, said "the discussion [in Germany] about night-flight bans has not been the sole reason behind our decision, but it has created planning uncertainty. A ban would have had catastrophic consequences."

TNT's decision exposed a deep split in the red-green government in North Rhine/Westphalia, which is seen as a dry-run for a possible SPD-Green coalition in Bonn after the 1998 federal elections.

Some Greens reportedly welcomed TNT's decision, promising "more progress in that direction", a comment that did not help cool tempers in the coalition. One local Green party leader, called TNT's decision "logical", since the company had been "inflexible in its stance towards the residents who suffer from noise pollution".

By contrast, the Social Democrats are backing a new terminal at the Dortmund regional airport. The Greens argue that the coalition treaty ruled out any further expansions of airports, while the SPD argues that this relates only to runways, not to airport infrastructure.

Mr Kablitz of TNT said that Liège had several advantages over Cologne, where it has been based since 1988. It would be easier for TNT to expand operations if needed; it could take control of ground operations, which in Germany falls under the auspices of the airport authorities; Liège has two runways, while Cologne has only one; and wage costs, especially social security contributions, are lower. When the board debated the Liège versus Cologne case, Cologne appeared to have lost on virtually all counts.

Mr Eberhard Garnatz, director of Cologne's chambers of industry and commerce, said: "These 600 job losses are so devastating because they are the direct consequence of politics. Normally the process is more concealed."

The liberal Free Democrats, junior partner in Chancellor Helmut Kohl's coalition, have immediately seized on the issue. Mr Guido Westerwelle, the general secretary of the Free Democrats, called the red-green government in Düsseldorf a "job-killer coalition".

Mr Matthias Wissmann, the federal transport minister, tried to put the Düsseldorf government on the spot with a call to confirm formally that the current night-flight rules are to remain in place. He said failure to clarify the position would force other express parcel services to follow TNT's example.

How to sink a shipbuilder

Judy Dempsey recounts the hype and fall of Bremer Vulkan

Mr Henning Scherf must be wondering whether he should have followed his father's advice and become a priest instead of a politician.

Indeed, the Latin, Greek, Hebrew and law he studied on his way to becoming mayor of the Social Democrat/Christian Democrat government of the north German city-state of Bremen never prepared him for the formidable task he is faced with.

After months of staggering financial disclosures, the region's largest employer, the Bremer Vulkan shipyard, was forced last month to seek protection from its creditors.

And that was particularly bad news for Mr Scherf and the city government, for it was the guarantor for hundreds of thousands of D-Marks in loans which were supposed to ensure the company's future as a ship-builder but were apparently never spent on it.

Instead, the management of Germany's biggest shipyard appears to have tipped the lot down a black hole of the company's loss-making divisions rather than invest it in the troubled east German shipyards it bought in 1992.

The demise of Bremer Vulkan is a tale of the cosy relationship between German government and industry, lax accounting procedures and an absence of clear responsibility in business alliances between public and private sector. Some say it also goes to the heart of an endemic reluctance to question the authority of Germany's captains of industry.

For Mr Scherf the tale began less than two months after he moved into the mayor's office, which looks out on Bremen's medieval St Peter's Cathedral, when he received a visit from Mr Friedrich Hennemann, Bremer Vulkan's chairman at the time and a former state secretary in the SPD-controlled Bremen government during the 1980s.

"He was full of enthusiasm. He had a copy of the company's six-months report. He said it was going to make a small profit. We had no reason to doubt him. After all, outside accountants had checked the books," said Mr Scherf.

This was good news for Bremen. The company has 23,000 people on its payroll, at least 10,000 of them around Bremen, and over the years the city acted as guarantor to the company. One supervisory board member of Bremer Vulkan reckons Bremen's guarantees amount to DM700m (£300m).

"We never suspected anything. *We assumed things were* going fine until August, when the bad news started," said Mr Scherf.

Between August and last month, Bremer Vulkan's losses soared, increasing to more than DM1bn in 1995 with the banks owed DM1.4bn. The company also poured DM852m into its loss-making subsidiaries instead of investing that amount in its two east German shipyards, as agreed with the BvS, the successor to the Treuhand privatisation agency which sold it the yards.

"All that money is gone," said Mr Hero Brahms, a former Treuhand board member who was appointed head of Bremer Vulkan's supervisory board last December after Mr Hennemann was ousted the previous month because of repeated losses.

"In fact, the Bremer Vulkan case shows there was no proper system of accountability or control over the way state-backed credits were spent or how he expanded the group." Mr Brahms, Bremer Vulkan's workers' council and some bankers agree that the cosy relationship between German industry and politics contributed to the collapse of the company. Meanwhile, Mr Hennemann is under investigation by prosecutors.

"The supervisory board of Bremer Vulkan had not enough authority," said Mr Wolfgang Dettmer, deputy head of the workers' council at Bremer Vulkan Werft, a subsidiary of the group. "These boards rarely do. As chairman of the management board, Hennemann called the shots. The *management and supervisory* boards went along with it. We believed him. What choice did we have, especially when outside accountants had checked the finances?"

In August 1992, under pressure from Bonn and the Christian Democratic Union (CDU) in the eastern state of Mecklenburg-Vorpommern, the Treuhand sold MTW and VWS, two east German shipyards, to Bremer Vulkan. "We were under huge political pressure to sell to Hennemann," said Mr Brahms. "He wanted the entire east German shipping sector. Some of us tried to resist. We were sceptical."

The Treuhand allocated DM1.27bn of public funds to the MTW and VWS shipyards with a commitment in the purchase contract with Mr Hennemann of a further DM1.54bn. It now appears that the BvS, successor to the Treuhand, failed to monitor the implementation of those contracts through its "contracts management" department, whose task is to ensure that investments are made on time and are channelled into agreed projects and that job guarantees are met.

Mr Heinrich Hornef, head of the BvS, shrugged off any responsibility and denied negligence. "There has been misuse of funds. The responsibility lies with the former board members of Bremer Vulkan," he said.

"No one dared take Bremer Vulkan head-on in the past," said a banker specialising in shipbuilding and who refused to grant the company any loans. "I am pessimistic about any politician prepared to do so in the future."

He said the SPD in Bremen had been too close to Mr Hennemann to question the rapid expansion of the company in the late 1980s, while the CDU, which joined the coalition last summer, had the chance to scrutinise Bremer Vulkan and the SPD's financial backing for it, but got cold feet.

"Like the SPD, it knows there are too many jobs at stake," the banker went on. "That is why neither party wants to take responsibility for a radical restructuring plan for Bremer Vulkan. That's why the coalition partners are now hugging each other and working in consensus. Neither party is prepared to make tough decisions to revamp the company just as both expect the taxpayer to pick up the bill."

Security leader to take early retirement

By Peter Norman in Bonn

Mr Konrad Porzner, the head of Germany's intelligence service, the BND, resigned yesterday after the federal chancellery refused to let him dismiss two senior BND officials in the wake of a scandal involving alleged black market trading in military material from Russia.

It has been alleged that three BND employees made personal fortunes some years ago through bringing military material out of Russia to the west. Mr Porzner sought to dismiss the two senior officials he considered responsible for the department involved in the operation.

Yesterday, Mr Porzner sought and was granted early retirement after Mr Friedrich Bohl, the head of the chancellery, refused to allow the BND chief either to send the two officials into early retirement or to relocate them.

Mr Porzner, aged 61, was appointed BND head in 1990 after nearly 30 years in politics and parliament. A Social Democrat, who had served as a junior minister in the finance and development aid ministries before Mr Helmut Kohl's coalition came to power in 1982, Mr Porzner had no background in intelligence and soon reports were widespread of tensions between him, the BND staff and the chancellery.

His departure yesterday was taken as a sign that he had finally lost the confidence of Chancellor Kohl.

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EUROPEAN NEWS DIGEST

EU law rings telecoms change

Legislation forcing European Union governments to allow full competition in the telecoms sector by January 1 1998 has been finally adopted by the Commission. The law, designed to modernise the EU's telecoms industry and bring down prices, covers basic voice telephony as well as infrastructure. It also orders governments to allow alternative network providers – such as road, rail and energy operators – to carry telecoms services by July, in competition with the largely state-owned telecoms monopolies still dominant in member states.

The Commission said that underpinning the law was the recognition that competition, together with the right *regulatory safeguards*, would enhance universal service. Member states have until July next year to tell the Commission how they intend to ensure all citizens, even those in the remotest areas, will have access to a telephone after liberalisation. *Emma Tucker, Brussels*

Dutch compromise on takeovers

The Dutch government has reached a compromise with the financial community on proposed legislation regulating hostile takeovers. Under the bill, to be sent to parliament in autumn, the companies section of an Amsterdam court would be empowered to order a target company to dismantle its takeover defences if the predator's plans for the company were found to have merit.

Under an earlier proposal put forward by the Amsterdam stock exchange and a lobby group for Dutch companies, the vetting would have been done by an independent takeover panel. This was rejected as unnecessary by Mr Gerrit Zalm, finance minister, who is responsible for financial markets.

Mr Zalm said in a letter to parliament yesterday that a hostile bidder would first have to amass 70 per cent of a company's shares before resorting to legal action. This is unchanged from previous proposals. But the bill would require the predator to wait only 12 months before going to court, rather than 18 months as suggested by the financial community in May.

The Netherlands has never seen a big, successful hostile bid, mainly because companies have several layers of defence. The most common of these is a swift issue of ordinary issues to a friendly institution, thereby diluting the voting power of the hostile bidder. *Ronald van de Krol, Amsterdam.*

Polish TV chief to quit

The president of Poland's public television – long accused by the ruling former communist Democratic Left Alliance of being politically biased – said yesterday he was resigning to avoid being reduced to a mere figurehead. "The role of a figurehead is unacceptable to me," Mr Wieslaw Walendziak said. His resignation is to be considered by Telewizja Polska's board.

Mr Walendziak's move was prompted by changes in the television's council, which deprived his supporters of a majority and led to decisions being overruled. Mr Walendziak, who was appointed two years ago and was the first president of public television after a re-organisation partly designed to safeguard its independence, brought in hard-hitting but youthful journalists. They were dubbed Pampers because of their youth by resentful veterans of the pre-1989 communist-dominated television service. *Reuter, Warsaw*

Union chief survives challenge

Mr Marc Blondel, one of the principal leaders of last December's big French public sector strikes, yesterday fought off a challenge to his leadership of the Force Ouvrière from a moderate, Mr Jacques Mairé. He had accused Mr Blondel of being under the sway of Trotskyists and bringing the union federation into disrepute with his extremism.

About 78 per cent of some 4,000 FO delegates to a congress in Paris yesterday endorsed Mr Blondel's report on the union's activities, while just over 20 per cent voted against. Although the actual leadership contest will only be formally decided by FO's national committee tomorrow, Mr Mairé effectively conceded defeat yesterday and joined Mr Blondel on the rostrum in a show of unity.

Mr Blondel, a strong opponent of government welfare reforms, rejected suggestions that he had allowed Trotskyists to infiltrate the higher reaches of the FO and denied his tactical alliance with the rival pro-communist CGT union during December's strikes was designed to resubmerge the FO in the CGT, from which it split in the late 1940s. *David Buchan, Paris*

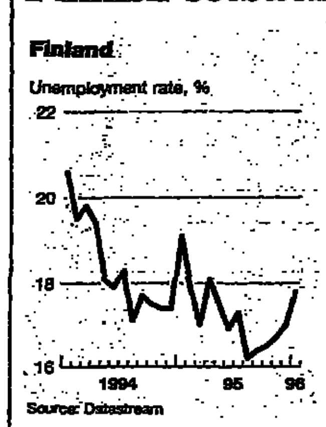
Hungary lifts growth hopes

Mr Peter Medgyessy, who takes office as Hungarian finance minister today, is to aim for economic growth of 4-5 per cent next year, up from an expected 2-3 per cent increase in GDP this year. However, Mr Medgyessy pledged yesterday to follow the stabilisation policies successfully pursued by his predecessor, Mr Lajos Bokros, the cabinet's leading reformer, who stepped down on February 18 over disputed social security reforms.

"Stabilisation is a pre-condition of growth and there will be no stabilisation if we do not continue to support anti-inflationary measures," Mr Medgyessy, a 53-year-old banker and former communist, said in his first press briefing since being nominated by the governing Socialist party. He said inflation of about 20 per cent this year, down from 28 per cent last year, was a realistic target. He also promised to take a more conciliatory approach to reform of the country's indebted social security funds which run the country's health and pensions schemes. The country's large public sector had to become smaller and more effective and state expenditure reduced to enable tax cuts and a fall in interest rates. *Virginia Marsh, Budapest*

ECONOMIC WATCH

Finnish setback over jobs



Source: Datastream

Finland's efforts to bring down one of Europe's highest unemployment rates suffered a setback yesterday, with figures showing that joblessness rose from 17 per cent to 17.8 per cent between December and January. The upturn increases pressure on the coalition government of Mr Paavo Lipponen as the country heads into a period of slower economic growth due to weaker demand in its main European export markets. Last year the economy grew 4.4 per cent – one of the best rates in Europe – but the annual growth rate slowed from 2.9 per cent in November to 1.3 per cent in December.

When the Social Democrat-led government took office last year it said it aimed to halve unemployment to single figures, but the target looks increasingly unrealistic despite lower interest rates and efforts to make labour markets more flexible. A total of 438,000 Finns are unemployed, one in 11 of the population. *Christopher Brown-Humes, Stockholm*

■ Swiss consumer prices rose 0.2 per cent in February from the previous month, for a year-on-year inflation rate of 0.8 per cent.

■ Austrian consumer prices rose 0.8 per cent in January from December and annual inflation climbed 0.1 percentage points to 1.9 per cent.

■ Norwegian unemployment fell to 4.5 per cent in February from 4.8 per cent a month earlier. The jobless rate was 5.3 per cent a year ago.

Criticism of existing system of meetings prompts review

EU to boost links with eastern bloc

By Caroline Southey in Brussels

The EU and eastern and central European countries this week broadly agreed new measures to boost contacts, in an effort to breathe new life into relations between the two blocs ahead of enlargement.

The initiative follows widespread criticism of a regime set up a year ago to develop closer contacts and co-operation between EU member states and countries waiting to join the Union.

The changes are designed to improve the quality of a system of meetings, known as structured dialogue, which most countries believe has lost its way and is producing little of substance.

As part of a wider strategy on enlargement, EU heads of state agreed at the Essen summit in 1994 that eastern and central European countries should be invited regularly to meetings such as heads of state summits and Council of Europe meetings on foreign policy, transport and the single market.

Senior representatives are highly critical of the present regime. "We are going through a difficult period," an EU official said. "The system is not working. It has outgrown its usefulness."

The official said the problem for aspirant member countries was that they had hoped structured dialogue would be the "centrepiece of relations" while waiting for accession. "As it has turned out, they feel they did not have any influence," he added.

"From our side the problem is that they only come with sterile reports which do not touch on issues we would like them to address," he said, citing as examples banking privatisation and implementation of stock market reforms.

Mr Josef Kreuter, ambassador to the EU for the Czech Republic, said the meetings were "too formal" and ministers were "not tempted to speak freely".

The meetings, which sometimes take place the day after Council of Minister gatherings, are often badly attended. Only two EU foreign ministers – from Greece and Italy – were at this week's session with central and east European foreign ministers.

A further criticism is that *ministers from the associated* countries, which include Poland, the Czech and Slovak Republics, Hungary, Bulgaria, Romania, Latvia, Lithuania and Estonia, are prone to delivering set speeches, which militate against a free exchange of views. "The meetings have turned into monologues," an EU diplomat said.

Other diplomats also point out that there is no co-ordination between the countries ahead of meetings. "They are in competition with one another. They do not act or feel like a group," the EU official said.

The proposals considered this week include earlier preparation of agendas to ensure a "coherent" logic in the order in which sectors and topics are tackled, and limiting the topics to one or two a session.

Another idea is to ask the European Commission to prepare background papers ahead of each meeting. "This should reduce the amount of reporting back ministers do," an official said. Conclusions will be drawn up after each meeting to establish continuity.

Aznar's confidence grows in final campaign push

SPANISH ELECTIONS
March 3

Mr José María Aznar today embarks on a 1,500km whirlwind tour of Spain on the final campaigning day ahead of Sunday's general elections. In his last push to replace Mr Felipe González as prime minister, he will criss-cross Spain from north to south, addressing four rallies in seven hours.

Mr Aznar predicted at the start of the two-week campaign that his centre-right Popular party would win a "sufficient" majority. His punishing electioneering schedule is designed to win the PP an outright majority.

His growing confidence showed at a midweek meeting in Zaragoza's bullring, where he said the opinion polls had consistently underestimated the PP's lead over the ruling Socialists. "The gap is wider then they say, we are well out in front."

Zaragoza, Spain's fifth largest city with half a million inhabitants and the capital of the Aragón region, is a bellwether town where companies test new consumer products for the domestic market;

Mr Aznar's feat was considerable because he was selling the PP in Zaragoza at a singularly unpropitious moment.

The 15,000-strong crowd was in a state of angry shock when the meeting started. It had been watching, on giant screens, the annihilation of Zaragoza's football club in the final leg of the European super cup by Ajax of the Netherlands in a match where the Scottish referee gave three penalties against Zaragoza and sent off two of its players.

But Mr Aznar had a surprise up his sleeve. Having told the crowd "we're going to win in Zaragoza and if we were playing in Amsterdam we'd win there too", Mr Aznar introduced the Miami-based singer Mr Julio Iglesias, one of the biggest showbusiness personalities Spain has produced.

The bullring erupted as Mr Iglesias leapt on to the stage to embrace "my very dear friend José María".

"A nation, like a person, doesn't grow if it doesn't change," said Mr Iglesias, who paid a highly publicised call on Mr González in 1983 to congratulate him on becoming prime minister. The singer now told the crowd Mr Aznar was the best possible man to run Spain because "he is honest, he is prudent and he knows how to listen".

A delighted Mr Aznar delivered his standard campaign speech. It dwelt on moderation, efficiency and opening up a "new dialogue" with society. The country was poised for a "momentous, peaceful and responsible change"; his government would "open windows to let in fresh air" and "restore Spain's self-confidence".

He expects an outright majority in Aragón, where the PP wrested the regional government and the Zaragoza city hall from the Socialists in local elections last year. Mr Aznar has pulled off a coup in Aragón by establishing a coalition with a local regionalist party that had divided the centre-right vote in previous polls.

Analysts believe the PP will now double its seats in Aragón, returning eight of 13 MPs elected by the region.

Tom Burns

A Spaniard in the Basque capital of Vitoria walks past a poster depicting a tomato splashed over opposition leader José María Aznar, with the message "Whether you vote or not, at least enjoy it". The poster was made by a small group boycotting Sunday's general election. *Reuters*

Bank of Italy warns on economy slowdown

By Robert Graham in Rome

The Bank of Italy yesterday warned that the Italian economy would be more seriously affected than previously projected by the slowdown among its main international partners.

In the central bank's latest six-monthly bulletin, economists forecast that growth will be closer to 2 per cent this year, instead of the 3 per cent envisaged last year in the Dini government's macro-economic projections.

The deceleration of the Italian economy, evident in the last quarter of 1995, began later than other G7 economies. So far the slowdown has been less pronounced, because of strong exports. But the pace of the export drive is beginning to slow.

The bulletin notes: "With competitive gains (from the lira devaluation) exhausted, the slackening on the exports front is unlikely to be offset by domestic demand whose rate of growth will remain substantially unchanged."

Consumer spending this year will remain flat because real wages are not expected to increase, and unemployment cannot be reduced significantly, the bulletin says. Unemployment is at presently running at close to 12 per cent of the labour force.

However, with growth slowing, domestic demand flat, and wage demands contained, the bank sees a real prospect of bringing Italian consumer prices below 4 per cent.

Italian inflation has remained high, against the European norm. January figures just released showed the beginnings of a slight fall to a 5.2 per cent annualised rate.

The bank also lays down important parameters for the economic debate during the forthcoming campaign for the April 21 general elections.

The bulletin casts doubt on the 1996 budget achieving its object of reducing the public sector deficit to L109,000bn (£45.3bn) from L130,000bn, equivalent to 5.9 per cent of GDP.

This is despite the Dini government bringing the 1995 deficit in on target. To gain greater credibility in the international financial markets, the banks says extra measures will be necessary.

This recommendation is less specific than recent statements by Mr Antonio Fazio, the governor, who has talked of the need to find an extra L10,000bn-L15,000bn in spending cuts or fresh revenues.

Last year Italy's debt service bill was L190,000bn. Without this burden the budget recorded an important primary surplus of L60,000bn.

For the first time last year Italy's debt stabilised as a proportion of GDP, and even lowered marginally because of L8,350bn in privatisation receipts used to retire debt.

But it is still above 120 per cent of GDP, double the figure laid down by the Maastricht convergence criteria.

Paris may act on tax-free savings

By Andrew Jack in Paris

The French government is considering giving the country's private sector banks a free hand to manage money collected through a new tax-free savings product.

This would represent a break with the normal practice of using funds generated by similar products for specified public policy objectives. It would also be the first time financial institutions were permitted to use tax-free funds collected without any obligation.

Mr Jean Arthuis, economics and finance minister, announced at the end of January the government's intention to create a new "Livret Jeune" account for young people aged 12-25 that would be exempt from tax and available through a bank.

The country's banks want to be able to use the money collected how they like, or demand a commission of 1.2 per cent on any amount that has to be handed over to the state Caisse des Dépôts institution for investment.

Banks are keen to win Livret Jeune accounts, partly because they hope to hold on to the young savers they attract. Advertising has already begun in earnest, and the accounts are officially available from today with a maximum deposit of FFr10,000 ($1,970).

Introduction of the Livret Jeune was aimed at persuading private sector banks to cut interest rates, as part of efforts to boost investment and consumption in the economy.

The banks agreed to cut rates, but demanded an end to the monopoly of the French Post Office and the Caisse d'Epargne national savings network over the tax-free "Livret A", and a similar "Livret Bleu" product offered by the Crédit Mutuel network.

The two existing livrets were maintained, but their interest rates cut by 1 point to 3.5 per cent, making them less attractive.

All Livret A and Livret Bleu deposits are handled centrally by the government, which uses them for financing low-income housing projects. The Codevi, another tax-exempt product already available through private sector banks, is partially collected through the state, but even the amount managed by the banks must be used to provide loans to small and medium-sized businesses.

Cries of 'foul' over TV rights to football

By Robert Graham

A row broke out last night over the award of television *rights for Italian football to Mr* Vittorio Cecci Gori, the owner of two small TV channels with less than 5 per cent of the national audience.

Mr Cecci Gori, a football fan and owner of the Florence-based Fiorentina team, is also believed to be one of the main sponsors of the political ambitions of Mr Lamberto Dini, the premier who this week launched a new centrist political party.

RAI, the Italian state broadcasting organisation, criticised the award by the football league; it is the first time RAI has not been awarded the rights. An outraged spokesman said the offer made by Mr Cecci Gori was four times greater than the annual earnings of his TV stations.

Mr Cecci Gori's winning bid for the live transmission for terrestrial channels was L218bn ($137m) for each of the next three years. He also won the radio broadcast rights.

The RAI statement pointed out that Telemontecarlo and Videomusic – Mr Cecci Gori's two channels, both of which he acquired last year – did not broadcast across the whole country.

It is not clear how Mr Cecci Gori, whose father founded a successful film production and distribution business, will finance the bid. But there have been rumours he is seeking *international partners, including* Mr Rupert Murdoch of News Corporation.

The original auction last autumn was postponed because Mr Cecci Gori claimed he needed time to bid against the three RAI and three commercial channels owned by Mr Silvio Berlusconi's Fininvest. Through football Mr Cecci Gori hopes to increase his share of the national audience to about 15 per cent.

He appears to have offered L200bn more than what RAI was prepared to pay last autumn for three years' terrestrial rights.

Overall, the Italian football league will receive L1,251bn for football rights during the next three seasons.

The pay-TV and pay-per-view rights were awarded to Telepiu, which is controlled by Germany's Kirch group and the Rupert family of South Africa. Telepiu, in which Mr Berlusconi has a 10 per cent stake, bid L203bn a year for three years.

Here also RAI might seek to reverse matters as it has been arguing vigorously to be allowed to enter the field of pay-TV. The government has, so far, blocked its way.

ASIA-PACIFIC NEWS DIGEST

China irked by US loan curb

China expressed regret yesterday over a US decision to hold up $10bn in preferential US Export-Import Bank loans. Washington is considering whether to impose sanctions over alleged Chinese transfers of nuclear technology to Pakistan. "We regret the move. We believe it is unwise," said Mr Shen Guofang, foreign ministry spokesman.

Eximbank announced yesterday it would hold off on new financing commitments to China for the next 30 days, pending further investigation into the alleged transfer of nuclear technology. US intelligence has reported that China last year shipped specialised magnets to Pakistan for equipment that enriches uranium used in nuclear weapons. The latest irritation comes at a sensitive moment in Sino-US relations, with a US decision also pending on sanctions over continued copyright violations of American information and entertainment products. *Tony Walker, Beijing*

Ramos confident on tax reform

Philippine president Fidel Ramos expects his tax reform package to pass soon, despite the defection of Liberal Democrat members of his coalition from the Senate, he said yesterday. "I have been assured by the leadership of both Chambers that the entirety of these tax reform measures will be passed." Speaking on the eve of the Europe-Asia summit, Mr Ramos called on European countries to take part in the international marine survey workshops being organised by Asian countries to defuse conflicts over claims to the Spratly Islands. Europe had an interest in peaceful resolution of the issue, he said, because shipping lanes in the area were so important. *Peter Montagnon and Ted Bardacke, Bangkok*

Vietnam to boost tax collection

Vietnam, faced with a widening deficit, will tomorrow discuss a new budget law designed to reverse chronic tax collection shortfalls after a fall in government revenue last year. The issue will be discussed at a session of the National Assembly, the country's legislative body that has an increasing say in economic policy. Mr Vu Mau, chairman of the standing committee of the Assembly, said a cornerstone of the new law will be to allow some of the country's 53 provinces to keep more tax as an incentive for them to collect more. The Assembly would also pass a long-awaited mining law allowing foreigners to own the minerals they exploit in Vietnam, which has gold and other valuable mineral deposits. Foreign investors, particularly Australian companies, have expressed interest in Vietnam's mineral sector. *Jeremy Grant, Hanoi*

Taiwan eases investment curbs

Taiwan has loosened curbs on foreign investment in domestic shares in a liberalisation move timed to boost flagging share prices before the country's first presidential elections on March 23. The cabinet yesterday approved a proposal to lift the ceiling on foreign equity investment from 15 per cent to 20 per cent of total market capitalisation. It also gave the nod to direct investment in shares by foreign individuals. Until now only foreign institutions approved by Taiwan's monetary authorities have been allowed to buy Taiwanese shares.

While welcoming the changes, securities analysts cautioned that they were unlikely to bring an influx of foreign funds into the Taiwan market. Net foreign investment in Taiwan shares is now stands at less than 5 per cent of total market capitalisation. *Laura Tyson, Taipei*

Government panel urges break-up of NTT

By Michiyo Nakamoto in Tokyo

A Japanese government advisory panel yesterday recommended the break-up of NTT, the world's largest company by market capitalisation.

The break-up, it said, was crucial in stimulating competition in Japan's telecoms markets and speeding the move to an advanced information society.

NTT should be broken up into one long-distance and two regional carriers by March, 1999, the Telecommunications Council said in its final report to the government.

Publication, after almost a year of debate over NTT's future structure by council and public, takes the issue to the political arena. The Japanese government's final decision on NTT, set for the end of March, will have a crucial influence on the course of the world's second largest telecoms market.

The council's report is by no means guaranteed to become law in its present form. Prominent politicians in the government have expressed opposition to a break-up of NTT; indications are growing that political considerations will, in the end, prevent the council's recommendations being adopted by the government.

NTT, which has rigorously opposed any break-up, has substantial political clout, with over 191,000 employees throughout Japan. Japan's ruling parties are unwilling to risk alienating this huge source of votes when public antagonism towards the government's housing loan bail-out scheme is at a peak.

The Keidanren, Japan's most influential business organisation, said yesterday it respected the council's view but would like to see further deregulation and the separation from the telecoms ministry of its regulatory and supervisory functions.

NTT, in a last-minute attempt to convince the public it can be efficient, despite its size, offered yesterday to provide the most advanced new services at the cheapest prices in the industrialised world by early next century.

The Council's proposal to split up NTT is the third such move since NTT was privatised ten years ago. It comes five years after the last attempt was rejected by Japanese leaders in 1990. At that time, the decision on NTT's future was postponed for five years, bringing the deadline to the end of this month.

Criticism has been widespread that NTT's 99 per cent share of the local network has stifled competition, kept Japanese telecoms prices high, restricted new services and hindered Japan's entry into the advanced information age.

In its final report, the council recommends splitting NTT into a single long-distance company and two regional companies serving east and west Japan. It proposes the new long-distance company offer international and local telephone as well as cable television, data and mobile communications services.

KDD, Japan's biggest international carrier, will be allowed into the domestic telephone market. Regional carriers will not be allowed to offer cable, long-distance or international services from their business regions but will be able to do so outside their own areas.

Foreign ownership of shares in the two regional carriers will be relaxed from a ceiling of 20 per cent on NTT shares to just less than one-third.

Chirac sees EU as Asian partner

By Peter Montagnon and Ted Bardacke in Bangkok

France made a bid for the limelight at the European Union-Asia summit in Bangkok with a speech by President Jacques Chirac calling for Europe and Asia to work together towards the establishment of a new global equilibrium, replacing the old bipolar world of the cold war.

By the end of the century the European Union must assert itself as Asia's other partner besides the US, Mr Chirac said in a speech in Singapore, designed to overcome Asian doubts about Europe's interest in the Pacific region and establish France as the EU's leading partner in Asia before tomorrow's summit.

In his speech, the text of which was widely circulated here, Mr Chirac was careful to make conciliatory gestures to Asian countries upset by French nuclear testing in the South Pacific.

He endorsed Japan's ambition for a permanent seat on the UN security council and called for closer dialogue between Europe and the seven members of the Association of South-east Asian Nations. France would "adopt a constructive attitude of principle towards the treaty on a south-east Asian nuclear weapons free zone" signed by Asean last December.

Saying that Asia deserved a larger political role in the world, commensurate with its increasing economic power, the richer countries of the region should introduce their own development aid programmes. He also endorsed the planned expansion of Asean to incorporate three new members including Burma and reaffirmed France's claim to a national presence in the Asean Regional Forum which deals with security matters.

On the economic front, France wanted to triple its share of Asian imports from 2 per cent to 6 per cent within ten years, he said. But security issues were also crucial, now that the cold war was over. "This new multipolar world, very different from the bipolar world we have lived in since the [second world] war, with its ideological conflicts and risk of confrontation, will make everyone free to establish new ties, new solidarities."

Europe should look at Asia "with new eyes, and overcome the indifference, and sometimes the suspicion born of ignorance," adding that too often Asia's economic strength was seen as a menace in Europe and Europe was seen as a trade fortress in Asia.

He called for the establishment of a Europe-Asia training and technology exchange and private sector business forum.

Brittan to warn China, Page 5

Talks with Li fail to achieve commitment on reformed legislature

Major dampens hopes of HK deal

By John Kampfner in Bangkok

Mr John Major, the UK prime minister, last night sought to dampen expectations in Hong Kong of winning any Chinese commitment to preserve the territory's recently reformed legislature.

Speaking after an hour of talks with Mr Li Peng, the Chinese prime minister, Mr Major said overall relations had improved markedly over the past year, and that he had been impressed by several pledges received.

The talks, the first between the two leaders in five years, took place in the margins of the 25-nation Asia-Europe summit in Bangkok.

Mr Major said Li Peng confirmed that after the handover to China in June 1997, Hong Kong would enjoy "a high degree of autonomy". The Chinese would not send their own officials to run the region; they would not take extra tax revenues, and they would look sympathetically on local feeling in making their choice of a chief executive to run the territory.

To highlight improving political and economic ties, Mr Major announced that his deputy, Mr Michael Heseltine, would take 250 business leaders to China in May, one of the largest business delegations to be led by a British minister.

However, the British side received no indication on when a chief executive would be announced to replace Governor Chris Patten. Nor did it gain any assurances about the future of the Legislative Council, or about a bill of rights, which legislators have demanded.

"I said to the prime minister that Hong Kong's success is founded not only on economic success, but on the rule of law," Mr Major said. He also made clear he had "touched on human rights, as I always do".

Earlier, Sir Leon Brittan, the European Union trade commissioner, said that during talks with the commission, Mr Li had given an undertaking to discuss human rights in bilateral and multilateral forums, but not during the main business of the Bangkok conference.

However, Mr Zhou Nan, China's de facto chief representative in Hong Kong, warned the UK government yesterday not to press its demands for political democracy. "We sincerely hope the British can fully co-operate... and stir up no further trouble for Hong Kong's smooth transition," he said.

Mr Major flies on from Bangkok to Hong Kong tomorrow night for his first trip there since 1991. His decision, however, to address Legco in closed session has infuriated local politicians.

He is expected to use the visit to announce an agreement to grant visa-free entry to Hong Kong citizens after the handover, one of Legco's strongest demands.

Resistance has been strong, however, among Mr Major's cabinet colleagues, notably Mr Michael Howard, home secretary, who fear it could create an entry loophole for mainland Chinese.

Mr Major would not confirm that he had raised with Mr Li either the visa issue or the fate of Vietnamese boat people in Hong Kong.

The cynics and apathetics hold key to Australia poll

With few differences in style or substance in this campaign, the 'swing vote' counts, writes **Nikki Tait**

Ballarat, about 50 miles from Melbourne in the state of Victoria, is a marginal seat, targeted by both leading parties in Australia's federal election. A 1.6 per cent swing on Saturday would deliver it back to Labor from the conservative Liberal-National coalition.

Such close running might be expected to concentrate the political mind, but, in Ballarat, far from it. "It doesn't matter which mob you vote for, they all do the same thing," says one woman. This attitude – not always so cynically expressed, of course – has been evident across Australia. Despite a five-week campaign, voters see few defining issues.

Labor has been in office for 13 years, and the coalition has plugged the slogan: "Time for a change". "A change to what?" counters Labor. In many policy areas – from foreign affairs to healthcare – the leading parties' stated promises look remarkably similar.

The campaigns have scarcely moved the electorate either. The coalition went into the contest with a big lead in the opinion polls, and has minimised its risks. The diary of Mr John Howard, the coalition's leader, has comprised early morning radio interviews and set-piece addresses to the party faithful.

Mr Paul Keating, the Labor prime minister, has travelled more freely, especially recently. A tub-thumping speech to a union-arranged rally in Brisbane on Tuesday actually generated spontaneous (and supportive) interjections from the audience. Even so, his programme, too, has been carefully managed to minimise chance encounters with unvetted voters.

The resultant air of disillusionment matters for two reasons. First, voting is compulsory in Australia, so even the toughest cynics make their mark. Second, many Australians are loyal in their political allegiances. "Swinging voters", who represent less than one-fifth of the total electorate, usually determine the result.

As a result, political pundits are loath to make firm predictions about the outcome – although most concede victory for the coalition is "odds-on" after the fiasco on Wednesday in which Mr Ralph Willis, federal treasurer, accused the coalition of planning to cut federal funds to state governments and released letters purporting to show this. The letters were later shown to be forgeries.

The opinion polls bear this out, and while the opposition's margin over Labor has varied from 2 to 8 percentage points in recent days, it needs only a 0.5 per cent uniform swing to do it.

There may be some complicating regional factors. There is a widespread expectation that Labor will lose ground in Queensland. It holds half the 26 seats but seven are on margins of less than 3.5 per cent. The Queensland economy, meanwhile, has been badly affected by drought and a slowdown in the housing market.

New South Wales, where Labor also fared well in 1993, is another potential trouble spot. Disaffection with a new Labor state government could rub off on the federal party.

So it is probably essential that Labor makes up seats in other states. Its best opportunity lies in Victoria, where a fairly radical Liberal state government has already enacted industrial relations reforms and pursued an aggressive privatisation agenda. This makes seats such as Ballarat crucial, and cynical voters an essential prize.

Meanwhile a fairly positive set of monthly balance of payments figures has gone almost unnoticed. The current account deficit for January stood at A$1.64bn (US$1.24bn), down from a revised A$1.7bn in December and significantly better than the A$1.8bn which the market expected.

Merchandise exports rose by 2 per cent during the month, with rural exports enjoying a 6 per cent rise as the effects of the drought recede.

The parties, parliament and polls

Labor party

Paul Keating: party leader and prime minister

The Australian Labor party – having languished in the political wilderness throughout the 1950s and 1960s - gained office in 1972 but, after a turbulent three years, lost again in 1975. Eight years later, Bob Hawke led the party back into government, and for the past 13 years it has remained there. Keating become leader in 1991 after a bitter contest with Hawke. The party is the country's main left-of-centre party, and, despite its close ties to trade unions, has been responsible for freeing up and internationalising the economy, through progressive tariff reductions, deregulation of the financial sector and the floating of the currency. A centrepiece of its policy has been accords with the unions under which they promise wage restraint in return for the government's furthering social objectives.

Liberal/National coalition

John Howard: party leader and leader of the opposition

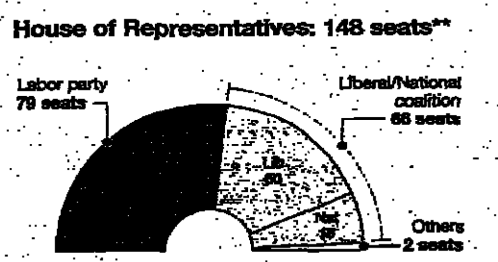
The Liberal party pursues a more pro-business stance than the Labor party but is often described as a broad church, encompassing hardline economic rationalists and some individuals with fairly progressive social agendas. Howard is having his second tilt at the prime-minister's job: he headed the party in the late 1980s but lost the 1987 election and was ousted as leader in 1989. He re-emerged as leader just over a year ago as an experienced hand to take charge of a party in disarray. The Liberals' long period in opposition has bred disunity and frequent leadership changes. But, under Howard's resumed leadership, it has put forward a more harmonious front, and its shrewd, disciplined campaign style seems to have surprised its opponents.

Tim Fischer: party leader and opposition spokesman on trade

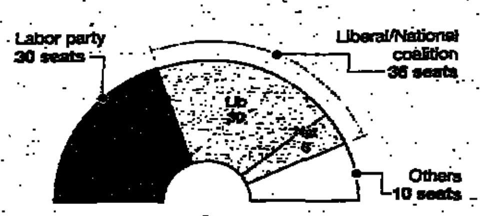
The National party was known as the Country party from 1919 – when it fought its first election - until the 1970s. Its heartland is still the Australian bush and its support strongest among the farming community. Coalition arrangements with the Liberals are long-standing and relatively smooth. Fischer, one of Australia's more unconventional but fondly regarded political figures, became party leader and opposition spokesman on energy and resources in 1990. He became spokesman on trade in 1993.

What the voters have now...

House of Representatives: 148 seats**



Senate: 76 seats**



...and how they say they'll vote*

1993 results in brackets	% OF VOTE	NUMBER OF SEATS
Liberal/National coalition	51–54 (48.6)	82–95 (49)
Labor party	46–49 (51.4)	51–65 (80)

*Ranges of public opinion on projected two-party preferred counts published in last 10 days by Newspoll, AGB-McNair, and Morgan. Estimates of seats based on assumptions that swing is uniform across all constituencies

In the complex Senate elections, most pollsters are tipping an outcome in which neither the coalition nor Labor holds outright control. The balance of power would be retained by the Australian Democrats, the Green party and an independant. Both the Democrats and the Greens are left-leaning, with strong environmental agendas.

**House of Representatives: The outgoing chamber has 147 seats, but a redistribution gives the new chamber 148, all of which are up for election; Senate: 40 of the 76 seats are up for election, of which 15 are currently held by Labor, 17 by Liberals, 2 by Nationals, and 6 by other parties

Germany and US liberalise air travel

By Peter Norman in Bonn

Germany and the US yesterday agreed an immediate partial liberalisation of air traffic and a bilateral air safety pact ahead of the expected start of the two countries' open skies agreement this summer.

Mr Matthias Wissmann, the German transport minister, said the two sides agreed a four-point "goodwill" deal to increase air traffic following yesterday's negotiations on the details of the open skies agreement. He said Germany would sign the open skies agreement, which was unveiled early last month as soon as the US authorities have given anti-trust immunity to the existing alliance between Lufthansa and United Airlines.

The two companies yesterday lodged their application for immunity with the US Department of Transport. Approval of the immunity, which will allow the partners to engage in joint capacity and price planning and integrate their sales policy, is expected in 60 to 90 days, Mr Wissmann said.

The four-point deal is intended to signal the two governments' commitment to liberalisation. It will take effect before the summer and allows:

- LTU, the German carrier, and Air New Zealand to fly three times a week on a code-sharing arrangement between Los Angeles and Frankfurt.
- Lufthansa and United to use their code sharing services between Germany and the US via Amsterdam and Brussels and Zurich.
- Lufthansa, which, according to Mr Wissmann, is the world's biggest freight carrier, to expand its freight services in the US.
- US airlines to have an extra 20 flights a week between Germany and the US.

In addition, the two sides agreed that their open skies agreement should include principles for non-discrimination and competition in computer reservation systems and rules to ensure non-discriminatory user fees that cover costs in all areas of aviation.

A Potton house (left) in Nasu, north of Tokyo, while (right) Japanese inspect a traditional style English fireplace

Japanese go for the inglenook look

By Andrew Taylor, Construction Correspondent

Japanese demand for traditional British luxury items, from whisky to Wedgwood china, is spreading to the country's housing market.

UK companies specialising in timber-framed homes have supplied reproduction English country houses, which come complete with inglenook fireplaces and exposed beams, to meet the requirements of discerning Japanese home buyers.

The latest enterprise, which is a joint venture between Potton of the UK and Meishin, a Japanese trading house, is due to be launched today.

Planning permission is being sought for the first "English" village of 20 homes to be built at Nasu, a commuter town surrounded by mountains and forests, about an hour's train journey north of Tokyo.

Eight separate "villages" using Potton designs are proposed by Meishin.

Potton, a family-owned company based in Bedfordshire, will be following in the footsteps of other British builders. Prestoplan Homes for several years has exported timber frame kits and housing components to build Tudor style homes in Takamatsu, Osaka and Kobe.

The flexibility of timber frames, compared with brick and block, meant that the company's homes in Kobe escaped relatively unscathed from last year's earthquake.

In Shirakawa, an entire Elizabethan-style village has been constructed by Hertfordshire-based Border Oak, using traditional building methods.

It forms part of a university campus where students learn English language and the English way of life.

In the latest deal Meishin has won exclusive rights to import timber frames from Potton to build Tudor and Queen Anne style homes.

Other building materials, fixtures and fittings will also come from the UK from an approved list of companies which includes Scottwood Kitchens, Southern Brick and Anderson Windows.

Potton will also arrange for British bricklayers, carpenters and other craftsmen to travel to Japan to build the first homes at Nasu. It is expected Japanese construction workers will be trained to build subsequent developments.

Homes are expected to be sold for about £140,000 ($215,600) compared with a construction cost of about £120,000. Japanese-built homes of equivalent size and quality would cost about £300,000, says Potton.

Mrs Akiko Abe, managing director of Meishin says: "Japanese people truly love English housing. Potton houses are cheaper than normal Japanese homes so the market is huge."

Meishin expects to develop a nationwide network of Potton representatives in Japan as its market develops.

Potton also has a one year, £1m contract to supply designs and timber frames for traditional English homes in Israel and Spain.

Russia steps up food import battle

By John Thornhill in Moscow and Nancy Dunne in Washington

The trade skirmish over US chicken sales to Russia intensified yesterday when Moscow hinted it may impose quotas on other food imports.

The threat follows Russia's warning last week that it would ban US chicken imports from March 16 if veterinary certification standards were not met.

In Washington US officials and scientists yesterday met Russian veterinarians in an effort to allay Russian concerns. The White House is also pressing for a solution through the Gore-Chernomyrdin commission, a channel for the US vice president and the Russian prime minister.

The US poultry industry, which has been earning about $600m a year from its exports to Russia, attributes the embargo to a a policy shift reportedly approved by Mr Chernomyrdin and President Boris Yeltsin, which would return Russia to heavily subsidised agricultural production.

Mr Alexander Zaveryukha, Russia's deputy prime minister in charge of agriculture, dismissed a letter from the US agriculture department complaining about possible trade infringements as "condescending".

And he promised the country's veterinary service would act firmly to safeguard the Russian population's health.

According to the Interfax news agency, the Russian State Trade Inspectorate last year turned back almost one quarter of the US chickens it inspected amounting to some 3,000 tonnes.

But Russian accusations of poor quality food imports have been combined with more overtly protectionist sentiments. The Russian poultry industry has complained bitterly about dumping by foreign producers and urged the government to intervene to protect local farmers.

The Moscow regional administration this week blamed cheap imports for undermining domestic producers. According to the administration's figures, the region's poultry stock has fallen to 17.7m birds or less than half the 1990 level.

Mr Zaveryukha confirmed he would press President Yeltsin to impose quotas on the import of foodstuffs.

The dispute has already hit US chicken exports to Russia which amounted to about $500m in 1995. US producers have rapidly increased chicken sales to Russia since the early 1990s when President George Bush visited Moscow and promised to help improve the country's food supply. The imported chickens, which have become extremely popular in Russia, were quickly labelled "Bush's legs" as a result.

US producers have seen Russia as a particularly attractive market given the local population's preference for dark chicken meat. The majority of the US public prefers white meat.

The popular press has reacted with incredulity at Mr Zaveryukha's comments given the appalling quality of many Russian chickens and the unsanitary conditions in which they are normally sold.

Big increase in project finance

By Richard Lapper

The international project finance market, which mobilises private capital for energy, infrastructure and other projects, grew by more than 50 per cent in 1995, according to a survey published today.

A sharp increase in telecommunications-linked business, and a rise in Asian and American projects, fuelled the growth, according to the survey by IFR Project Finance International, a trade publication.

The survey says the project finance market grew to $27.1bn in 1995, compared with $17.7bn in 1994. Loan finance accounted for 86 per cent of the total, with bond finance accounting for the remainder. Returns are paid out of revenues earned by the operators of the projects. PFI's figures, first compiled in 1994, include all deals underwritten during the year but exclude financing totally guaranteed by government agencies.

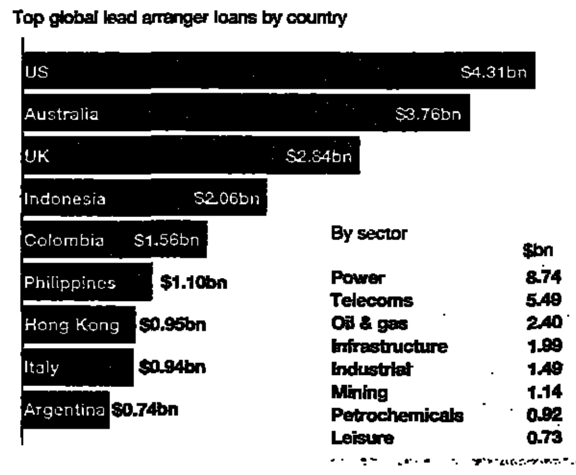
Worldwide nearly $5.8bn was mobilised for telecoms projects, with projects accounting for about 20 per cent of activity in the Americas and more than 50 per cent of the total in Europe and the Middle East. The survey highlighted financings or refinancings for the UK Orange and Mercury 1-2-1 mobile phone and the Italian OPI GSM greenfield mobile phone financing.

"Power, oil and infrastructure have been staples for project financing. We are starting to see telecoms rocket up," said Mr Rod Morrison, editor of the IFR Project Finance International. Telecoms was the second most popular sector after power for which bonds and loans financing amounted to some $11bn.

The rise in the number of loans directed to Asian projects was another outstanding feature of the year's business. Banks increased their loans to Asian projects from $4.2bn to $9.3bn. Among the biggest projects were deals to develop two coal-fired power stations: a $1.82bn loan for the Paiton project in Indonesia and a $1bn facility for the Sual project in the Philippines province of Pangasinan. Banks lent more to projects in Indonesia than in any other emerging market, while project developers in Australia borrowed more money than those in any other country apart from the US.

Project lending to Latin America also grew significantly, with Colombian power, pipeline and telecom projects drawing in $1.55bn loan finance, more than 20 per cent of project lending directed to the Americas as a whole. Bond and loan financing for the country's Ocensa pipeline amounted to $1.4bn, while loan financing for Colombia's Termobarranquilla gas power plant amounted to $575m.

Project finance: the world leaders



Source: Project Finance International

NEWS: INTERNATIONAL

Sharp rise in use of bank fakes

By Andrew Jack in Paris

The International Chamber of Commerce, the international business organisation, yesterday warned of a sharp rise in the use of fake banking instruments which are defrauding companies and individuals of millions of dollars each year.

The use of "prime bank instruments" – which purport to offer risk-free, high interest returns and often appear to be backed by well-known banks – have reached "epidemic" proportions, it said in a report on fraud.

Mr Rahmi Koç, president of the ICC, said he was "alarmed" at the growth in frauds, some of which falsely use the name of his and other organisations to add respectability.

The report calls for increased vigilance, and says many people are taken in too easily by bluster, bluff, name-dropping and pretentious language. The idea of "prime bank instruments" has been in circulation for many years, giving them credibility, but they have never been legitimate.

Other names for fictitious instruments often used are standby letters of credit, prime bank guarantees and prime bank notes. They are portrayed as highly profitable, totally risk-free, extremely secretive, and sanctioned by regulators, banks and international bodies.

Mr Eric Ellen, executive director of the chamber's commercial crime bureau, said that legislation needed to be tightened to clamp down on fraud.

He said it should be a criminal offence for someone to offer such instruments to others when they know or believe the objectives of a proposed deal cannot be achieved.

At present, fraudsters can evade prosecution because they claim to have acted in good faith, offering forged instruments but arguing in their defence that they thought them to be genuine.

He also called for tighter regulation to prevent newspapers and magazines carrying advertisements for such frauds.

Australia submits draft for global test ban pact

By Frances Williams in Geneva

Australia yesterday presented a model draft of a global test ban treaty to negotiators in Geneva, warning of widespread concern that the opportunity to conclude a treaty this summer was "slipping away".

Mr Michael Costello, head of Australia's foreign affairs department, said that the compromise draft was designed to cut the Gordian knot of "a thousand brackets and a few tough issues" which were holding up progress on the test ban treaty.

Addressing negotiators in the United Nations disarmament conference, Mr Costello said the draft showed a treaty was within the world's grasp this year.

Over the past two years, 90 per cent of the work had been done, but new momentum was needed to complete the treaty on time.

"There is a need to seize the hour; it may not come again if we miss it," Mr Costello later told a news conference.

He noted that the final version of the treaty had to be agreed by the end of June if it is to be submitted as scheduled to the 51st session of the UN general assembly in September.

The model text calls for a "zero-yield" test ban, which has been publicly endorsed by three of the five declared nuclear powers – the US, France and Britain – and is expected to be backed by Russia and China.

The Australian initiative was warmly welcomed yesterday by many countries, including Iran, which last week put forward its own treaty text in a similar attempt to speed the talks.

However, India, which has insisted on linking conclusion of the treaty with a time-bound commitment to full nuclear disarmament, threatened yesterday to withdraw from the Geneva talks if there were any move to substitute the Australian draft for the current negotiating text.

India, which carried out its own nuclear test in 1974, has become increasingly isolated in its hardline stance on linkage. In recent weeks a number of non-aligned states which share India's disarmament goals have publicly rejected any link that could scupper the test ban treaty.

Nevertheless, under the rules of the 38-member disarmament conference, India could block the necessary consensus on a global pact.

Even if New Delhi does not go this far, it could refuse to sign the treaty.

This would seriously weaken the pact in the eyes of many countries, which believe it should cover all nuclear-capable states.

Other "threshold" nations such as Pakistan could then also refuse to sign.

Diplomats point out that, while New Delhi did not block the indefinite extension of the Nuclear Non-Proliferation Treaty last year, neither India nor Pakistan have signed it.

A number of other issues are also holding up the talks, including the rules for on-site inspections when nations are suspected of cheating, and the conditions for the treaty's entry into force.

China is still holding out for the right to conduct "peaceful" nuclear explosions while some developing countries, including India, want to ban computer modelling and other research that could advance nuclear weapons development.

Premier accused of anti-democratic methods in resisting big pay demands

Army halts Lebanese workers' protest

Lebanon's Prime Minister Rafik al-Hariri yesterday ordered in the army to stop a workers' protest, raising new questions about his democratic convictions, Reuter reports from Beirut.

The billionaire construction tycoon's decision to impose a curfew backed by troops highlighted the mounting dilemma Mr Hariri faces in trying to rebuild Lebanon with scarce financial resources.

Meeting labour's insistent pay demands could bring on a financial crisis of unforeseeable consequences, financiers say. But if he does not do a deal with the workers, he seems condemned to rely increasingly on force to rule an increasingly restless country.

Already accused by critics of lacking enthusiasm for democracy and encroaching on Lebanese freedoms, Mr Hariri faces the prospect of confronting an ever-broadening political opposition if he continues to look to the army to prop him up.

In a biting comment, the leftist Beirut daily As-Safir yesterday called Mr Hariri a "martial law governor". By resorting to the army he had shown how much his personal popularity and political strength have plunged since he took over in October 1992, the newspaper said.

When he took office in October 1992, Mr Hariri was welcomed enthusiastically as the only man with the vision to rebuild Lebanon after the 1975-90 civil war.

Troops arresting people in Beirut yesterday for violating a curfew which halted demonstrations AP

But on Wednesday, he ordered the army to take over national security for three months in the face of labour unrest and charges that he ignores the poor and is leading Lebanon towards a "social explosion."

The army imposed an 11-hour curfew to abort demonstrations that the prime minister had refused to allow during a general strike planned for yesterday.

The General Labour Confederation (CGTL), which called the strike, wants a 76 per cent pay rise for all workers, a doubling of the monthly minimum wage of L£250,000 (£101) and rollbacks of government policies it dubs anti-democratic.

But the government is desperately strapped for cash as it pursues its multi-billion dollar postwar reconstruction drive, which has set Lebanon on the road to recovery.

It cannot meet the CGTL's pay demands without increasing a massive budget deficit and public debt and provoking inflation that could undermine the Lebanese currency, financiers say.

"I seriously believe what Hariri says is true, that if you raise salaries, there could be a collapse of the pound and the workers will be worse off," said a Beirut banker who asked not to be identified.

"I think the financial markets are relieved (by the army action) because they see that if he caves in to pay demands there will be a devaluation of the currency," the banker added.

Mr Hariri is also relieved at the army's backing, because in May, 1992, bread riots toppled Mr Omar Karami, a former prime minister amid a currency collapse and soaring inflation.

Another devaluation now of the Lebanese pound, which has appreciated steadily since Mr Hariri took office in October 1992 would knock away the lynchpin of his reconstruction policies.

To avoid the crunch, Mr Hariri has repeatedly resorted to delaying tactics. Lebanon's 120,000 public sector employees are still waiting for a 20 per cent raise agreed in December 1994, and the CGTL is increasingly militant.

A Beirut newspaper commentator said Hariri could afford to act so tough because he has the backing of international and regional powers – like the US and Syria – who want him to stay in office.

"This is why he's moving like a bulldozer. He survives every crisis because they want him to stay," said the commentator who asked not to be identified.

Syria, which has 30,000 troops in Lebanon, is the country's main power broker and analysts noted that Hariri made a visit to Damascus before ordering in the army.

"This is a dictatorship disguised as democracy," the commentator said. "The question is how long can he get away with it. He's not as popular as he was when he took over. He's very unpopular now and his popularity continues to drop," he said.

INTERNATIONAL NEWS DIGEST

Tunisian party leader jailed

A Tunisian court has sentenced Mr Mohamed Moada, the country's main opposition leader, to 11 years in jail on charges of having secret contacts with Libyan agents and receiving money from Tripoli, judicial sources and his lawyers said yesterday. It also condemned a Libyan agent, Rachid Ben Mokhtar Mohamed, who was tried in his absence, to the same jail term.

Mr Moada, a university professor and president of the main opposition party, the Movement of Social Democrats (MDS), was charged last October with having contacts with foreign agents which could affect Tunisia's military or diplomatic situation. Lawyers said Mr Moada pleaded not guilty and said his contacts with the Libyans were within the normal framework of relations between politicians.

The court dropped the charge that Mr Moada's contacts affected Tunisia's military position, lawyers said. Journalists were not allowed to enter the court for the hearings nor the reading of the sentence early yesterday. France, Tunisia's main economic partner, said it planned to discuss Mr Moada's jailing with other EU nations. *Reuter, Tunis*

South Africa signs nuclear pact

South Africa and France yesterday signed agreements opening the way for French investment in a South African laser-based uranium enrichment programme, Mr Pik Botha, mineral and energy affairs minister, said. France will invest R83m ($21.5m) in developing South Africa's Molecular Laser Isotope Separation (MLIS) enrichment technology.

Mr Botha said the French state-controlled Compagnie Generale des Matieres Nucleaires (Cogema) had signed a letter of intent in Paris in 1994 but this was subject to intergovernmental agreements being reached on nuclear co-operation and trade.

"The agreement is...subject to international safeguards and to the two intergovernmental agreements confining any cooperation and exchange of know-how and technology to peaceful uses only," Mr Botha said.

Both the International Atomic Energy Agency and the European Atomic Energy Community also had to be informed of the proposal because of the "sensitive nature of international co-operation on uranium enrichment technology". *Reuter, Cape Town*

AMERICAN NEWS DIGEST

Whitewater fillip for Mrs Clinton

There are insufficient grounds for a lawsuit against Mrs Hillary Rodham Clinton's law firm over its work for a failing savings and loan institution, according to a Whitewater report that congressional Democrats will use to argue for a swift end to Senate hearings.

The report says lawyers did not find evidence of fraud or intentional misconduct that would be needed to sustain a claim against the Rose law firm of Little Rock in the collapse of Madison Guaranty, the Arkansas savings and loan once owned by the Clintons' Whitewater partners.

A team of attorneys from a private law firm prepared the study for the Federal Deposit Insurance Corporation.

Mrs Clinton prepared a real estate document on a money-losing land development financed by Madison. The report said it would be highly unlikely a jury would find Mrs Clinton knew of any wrongful purpose regarding the document. *AP, Washington*

US money laundering fears

Organised crime in the US banking system, including money laundering and other financial scams, is raising national security and foreign policy concerns, witnesses told a House of Representatives panel.

Money laundering – used by drug dealers and other criminals to deposit illegal profits in the banking system – now moves as much as $500bn through the system annually.

Laundering, counterfeiting and credit card scams cannot be considered "white collar" crimes any longer because they are being used by organised criminal groups to support drug dealing, illegal arms trafficking and murder, Mr Jim Leach, chairman of the House Banking Committee, said this week. *AP, Washington*

Pemex pre-tax profits up 20%

An increase in international prices for crude oil helped Petróleos Mexicanos (Pemex), Mexico's state oil monopoly, to $13.2bn in pre-tax profits for 1995, a 20 per cent increase on the previous year.

Although the company had planned a slight increase in total production, hurricanes in October pushed output down to 3.1bn barrels for the year. *Daniel Dombey, Mexico City*

Colombia in drugs battle

Colombia is pulling its weight in the global struggle against narcotics and should not be disqualified for partnership by the US government, the Colombian minister of foreign trade said yesterday.

"Decertification is out of the question," Mr Morris Harf said. The US government will today list the results of an annual review of world anti-drug efforts that includes the "certification" of various countries as reliable anti-drug partner. US officials last month said, however, they were concerned about allegations that Colombian President Ernesto Samper's election campaign was fuelled by drug money, casting doubt on the country's ability to secure certification.

Nations denied drugs certification face the loss of US aid and possible trade sanctions, unless President Bill Clinton grants a waiver of the law in the national interest of the US. *Reuter, New York*

Two leading Republican presidential candidates fail to find top gear

Dole in the slow lane on Highway 85

By Jurek Martin in Spartanburg, South Carolina

Highway 85 on the fringes of Spartanburg, South Carolina, this week gave Republicans Bob Dole and Pat Buchanan a chance to show off their contrasting wares before tomorrow's primary election.

The majority leader was at the spanking new BMW plant, supposedly to preach the message that foreign trade and investment works. The conservative commentator was at the Evangel Cathedral which, as the name implies, is where fundamentalist Christians, his greatest well of support, gather.

It was Mr Dole's only public event of the day, typical for a campaign which does not seem able to kick out of first gear let alone achieve the speeds attributed to the BMW-Z3 roadster that graces the latest James Bond movie Goldeneye.

The gunmetal grey factory, employing 1,700 now and another 500 within a year, is the perfect manifestation of the new South Carolina and is becoming a mandatory pit stop for all conventional candidates.

By contrast, Mr Buchanan had spoken earlier outside a derelict textiles factory in Clearwater, backdrop for many a past protectionist campaign.

Mr Dole arrived at shift change time with his own assembly line in tow – two present governors, a former one, a senator, a congressman and several other political men in suits. They matched well with the neat white nylon jackets worn by the BMW horny handed sons of toil who now go by the name of "associates."

Uninspiring Bob Dole (left) and Phil Gramm fly in to South Carolina *AP*

The Dole phalanx inspected the roadster, Senator Phil Gramm of Texas peering into the narrow space behind the driver's seat, perhaps looking for his lost candidacy. The media pack surrounded them, obscuring all sight lines, and waited for the soundbite of the day.

But Mr Dole failed to deliver. Looking vaguely distracted, like a guest at his own wedding, he hardly uttered a word. Mr Gramm, the governors past and present and the congressman all waxed at length about the evils of protectionism and were in full flow when Mr Dole abruptly broke it off.

His party then stood in line as the BMW workers – wearing name tags like Dick, Tom, and even non-voting Franz and Heinz and a woman called Mercedes – filed past to shake hands.

One, identified as Brad, tried to engage Mr Dole in vigorous conversation. He said afterwards he was concerned about social programmes and thought waste and fraud should be assessed before they were cut to the bone.

He reported that the majority leader's response was that there were several congressional committees looking into exactly this problem.

Brad was not impressed with what has become the stock answer of a candidate who prefers to talk in the language of the Senate rather than the people.

If that event was tepid, an evening of Buchanan rabble-rousing at the charismatic Evangel Cathedral promised better.

The candidate did not speak from the pulpit but from a stage wide enough to accommodate the full Mormon Tabernacle Choir in single line abreast.

The cavernous 4,000-seat modern auditorium, just up the highway frontage road from the church itself, was barely one-fifth full.

By his high oratorical standards, Mr Buchanan was as flat as a pancake.

He exercised all his usual demons – Hillary Clinton, abortion, Nafta, Gatt, the UN's "new world order," the department of education – and exalted his heroes, from the Minutemen of the Revolution through Custer's Last Stand to Ronald Reagan, but almost as if by memorised rote.

His audience responded well when he pushed their hot button issues of abortion, religious revival and the UN, but were otherwise quite passive.

They were his crowd for the most part but did not exactly rush out afterwards in their pick-ups and Toyotas on to Interstate 85 blaring their horns with enthusiasm.

The fact is that Mr Buchanan is emotionally down after finishing third, not first, in Arizona on Tuesday. That night he was caught over a midnight dinner in Marietta, Georgia, sitting between his wife and sister, his head in his hands, for once without a word.

In Spartanburg, he showed he had not yet recovered. He spoke of "if" he became president not "when," and he seemed to be half-acknowledging that his crusade had limits. It reminded some of the self-doubt he had showed in the long months before the first caucuses in Alaska, Louisiana and Iowa gave him reason to dream.

Still, he and Mr Lamar Alexander, the former Tennessee governor, have another pit-stop to make – at the BMW plant. Both might take the roadster for a spin. Of course, Mr Steve Forbes probably already owns several of them.

Row over deaths threatens Mexican reforms

By Daniel Dombey in Mexico City

A row over a ruling exonerating one of Mexico's most controversial state governors from complicity in the killing of 17 peasants by state policemen is threatening moves towards political reform.

Opposition politicians have charged that the investigation, initiated by Governor Rubén Figueroa of the Pacific state of Guerrero after pressure from the country's human rights commission, was a whitewash.

Along with a clutch of his highest officials, Mr Figueroa was ruled to have no responsibility for the deaths on June 28 last year of members of a radical peasant organisation of the southern Sierra. The peasants had been stopped on their way to a rally by a contingent of police, which the special prosecutor investigating the case said lacked the training or the ability to deal with such a situation.

On Wednesday the leader of the opposition Party of the Democratic Revolution, Mr Porfiro Muñoz Ledo, said his party might leave talks on electoral and state reform if prosecutions against officials exonerated by the inquiry were not begun.

The reform, intended as one of the centrepieces of President Ernesto Zedillo's government, has already been thrown off track by a boycott by the National Action party, Mexico's biggest opposition force.

Opposition politicians charged that the special prosecutor, proposed by Mr Figueroa, lacked the necessary independence and passed over evidence of involvement at the highest levels of the state government.

A recently released video shows that many more police were present at the site of the incident than has been claimed by the state government. Last August the human right's commission argued that summary executions had been carried out and guns planted at the scene to make the peasants seem the aggressors.

The special prosecutor, Mr Alejandro Varela, said that he had begun criminal proceedings against 43 state officials, though not against Mr Figueroa and his closest aides.

● The Mexican government suffered a setback yesterday when a US federal judge in New Jersey ruled against the deportation of Mr Mario Ruiz Massieu, a former assistant attorney general. Mr Ruiz Massieu, who is wanted in Mexico on charges varying from illegal enrichment to the use of torture, had already seen four extradition requests from the Mexican government turned down.

In late 1994 he headed the investigation into the assassination of his brother, Mr José Francisco Ruiz Massieu, formerly a senior official of the ruling PRI, and the Mexican government claims that he covered up vital evidence showing the involvement of Mr Raúl Salinas, the brother of the former Mexican president.

Cuba protests at legislation to tighten US economic embargo

By Pascal Fletcher in Havana

US legislation to tighten the economic embargo on Cuba will "severely affect" US-Cuban relations and further set back prospects of solving their long-standing disputes, Cuba's foreign ministry said yesterday.

President Clinton is poised to sign the legislation after the downing by Cuba of two US civilian aircraft at the weekend.

"The Helms-Burton law...will have a severe impact on relations between the two countries," Mr Carlos Fernandez de Cossio, head of the Cuban ministry's North American Department, said.

The bill, named after its conservative Republican sponsors, Senator Jesse Helms and Congressman Dan Burton, is aimed at trying to block foreign investment in Cuba as a way of forcing President Fidel Castro to introduce reforms.

Mr Clinton has said he will endorse the new legislation as part of a package of punitive measures imposed by the US against Cuba for the shooting down of the two aircraft.

"This will mean in political terms that any possibility of solving the problems between Cuba and the US will be set back even further," Mr Fernandez de Cossio said.

But Cuba's message to foreign investors was that they should continue to have confidence in the island. "It should be common sense around the world that one country cannot dictate the trade and economic relations of another."

The legislation could seriously hamper efforts of foreign companies to do business in Cuba by exposing them to costly US lawsuits and denying entry to the US for executives from sanctioned companies. It would allow American citizens, including naturalised Cuban-Americans, to sue foreign companies that invest in property the Cuban government has confiscated over the past 35 years.

Mr Clinton won agreement from Congress that he have the authority to waive the right to sue if the national interest was involved. The waiver would run out in six months, but could be renewed.

Allies of the US, such as Canada, the European Union and Mexico, have told Washington they will oppose any "extra-territorial" aspects of the new legislation which might seek to block trade and investment by their national companies in Cuba.

Congested Florida on track to lead US out of the steam age

A planned link between Miami, Orlando and Tampa will be America's first high speed railway, writes **Richard Tomkins**

The US has been a slow starter in the high-speed rail revolution. While Japan and parts of western Europe have built lines that permit speeds of 200mph or more, most lines in the US are stuck in the steam age, limiting trains to a maximum of 79mph.

At last, however, the US may be starting to catch up. This week the state of Florida announced that it had chosen a private sector consortium to build the first high-speed railway in the US – a $4.8bn system modelled on France's 200mph *train a grande vitesse* (TGV).

The 319-mile, purpose-built railway will comprise two main routes. The first, due to open in 2004, will cover the 224 miles between Orlando and Miami, and the second, due to open in 2006, will cover the 95 miles between Orlando and Tampa.

Why Florida? For the simple reason that it has many of the problems faced by other regions that have adopted high-speed rail: a high population density and rapidly worsening problems of congestion on the roads and in the air.

Florida, after all, has one of the fastest-growing populations in the US. Miami is an important business centre for central and South America, and the state as a whole, with its warm climate, beaches, and big entertainment attractions such as Walt Disney World in and around Orlando, attracts millions of tourists a year from the US and overseas.

The state did its sums and estimated that the proposed high-speed railway would have the passenger carrying capacity of a 10-lane expressway. Building a new road that size, it said, would cost $6.6bn: thus the $3.8bn cost of building the railway (the balance of the $4.8bn is mostly for the trains) looked relatively cheap.

One unusual feature of the railway is that it is setting out to work in partnership with the airlines rather than to compete with them. Two of its stations, at Orlando and Miami, will be at the airports, not in the city centres. Another will serve Walt Disney World and nearby attractions.

The idea is that many people arriving at the airports will switch to the railway to take them to their final destination, having booked a through ticket that includes the rail leg of the journey. Conversely, people flying out of the state will be able to check in at the nearest railway-station and have their bags automatically transferred to their flight at the airport.

The railway line will take some intra-state passenger traffic from the airlines. But Florida Overland Express, the consortium chosen to build and operate the line, says it believes most traffic will be diverted from the roads: and in any event, airlines will be glad of the relief on congested airspace.

Even so, several hurdles remain before the line can become a reality. The choice of a route is bound to be controversial: no one wants a high-speed train running through their back yard. And the project could easily come unstuck if cost estimates start to climb.

Only two years ago, a much-touted plan to build a high-speed railway in Texas collapsed for lack of funds. At root, the US financial community could not be persuaded that the railway would ever be viable: cheap road fuel and ever-cheaper air fares meant people would continue to prefer their cars for shorter journeys and the aircraft for longer ones, it was said.

The Florida line will be financed largely by a bond issue, but the state will be a big investor in the project, contributing $70m a year over 25 years for a total of $1.75bn. In effect, the state will be paying most of the interest on the bonds, helping reduce the risk for investors.

In return, the state will own all the physical assets of the railway except the trains; it will get a share of the revenues once the debt has been paid off: and it will take over the whole of the system when the consortium's 40-year concession expires.

If the project succeeds, it could provide the model for similar schemes in other congested parts of the US. Many such schemes have been proposed – for example, linking Los Angeles with San Francisco – but none has yet left the drawing board.

The High Speed Rail/Maglev Association, an industry lobbying group, says: "We think once we see Florida moving ahead, other states will start accelerating their pace. But Florida's the maverick right now."

Sharp fall in imports pushes trade surplus

By Gillian Tett, Economics Correspondent

Britain recorded its first trade surplus for two and a half years with the rest of the European Union in December after imports from the Continent fell sharply.

The surprise improvement, shown in official figures published yesterday, came amid fresh signs that demand is faltering on both sides of the Channel, because of slower than expected growth in Europe.

However, the dip has not affected all sectors of the UK economy. For though an export driven manufacturing upturn has been the main focus of the recovery in recent years, coupled with consumer caution, this pattern now seems to be reversing.

Imports of consumer goods and cars, for example, have risen slightly in recent months – providing one hint that shops and distributors may expect consumer spending to grow. Meanwhile, separate banking data yesterday showed that although consumer lending only rose at a modest pace in January, demand for mortgage finance is showing some recovery.

However, manufacturing confidence may be weakening, with imports of investment goods used by manufacturers falling. These types of imports showed the sharpest quarterly fall in the last three months of 1995 for five years. Imports of German goods appeared to be particularly affected.

This trend echoes the surprise fall in UK manufacturing investment at the end of last year – and suggests that some companies may be harbouring fresh doubts about the economic outlook.

These doubts come as the UK export growth which drove the recovery two years ago is faltering. The value of exports in December was a seasonally adjusted 0.5 per cent lower than in November, the Central Statistical Office said.

Measured on a three monthly basis, in volume terms - a better guide to the trend - exports were 1.5 per cent lower in between the third and fourth quarters.

The weakness was not spread equally: sales to Germany fell 3.3 per cent, while exports to Belgium, Holland and Luxembourg are running at record levels. This patchy performance left exports falling more slowly than imports, resulting in a £56m surplus in trade with European Union countries, against a £118m deficit in November.

This surplus helped bring the overall trade deficit with the whole world to £557m in December, unchanged from November. This occurred in spite of the fact previously published data had already shown that the deficit with non-EU countries had risen.

Non-EU data is published ahead of EU data, although the CSO is now changing the system.

The European Commission issued its first ever harmonised inflation figures, which showed that the UK had the fourth highest inflation rate of any country in the European Union last month.

Channel tunnel rail link plan gets go-ahead

By Charles Batchelor, Transport Correspondent

Long-delayed plans to build a high-speed rail link between London and the Channel tunnel entrance were finally given the go-ahead yesterday with the award of the £3bn ($4.59bn) contract to the London and Continental Railways consortium.

The government, which had originally hoped to build the 68-mile long line without any public sector subsidy, will make a direct financial contribution of £1.4bn as well as transferring ownership of the Eurostar train service and large areas of railway land.

The winning consortium will take over European Passenger Services – owned by the government – immediately and plans a stock market flotation of LCR in the second half of 1997 to coincide with the start of construction work. It has been awarded a 999-year concession to operate train services on the line.

LCR is understood to have bid for nearly £500m less subsidy from the government than its rival. Eurorail, which was led by two construction companies, Trafalgar House and BICC.

The high-speed link will allow international express trains to run at speeds of up to 170 mph and cut more than 30 minutes off journey times between London and the continent.

Changes in the planned route and uncertainty over how the project was to be financed, have meant eight years have elapsed since the project was first mooted and high-speed Eurostar services, which started 15 months ago, have been crawling through Kent on conventional tracks.

Even if construction work starts, the line will not open until early 2003, nine years after the opening of the Channel tunnel itself.

The shareholders in LCR are Bechtel, the US project management group and SG Warburg, the investment bank, with 18 per cent each; National Express and Virgin with 17 per cent each; Systra, the French consultancy, with 14 per cent; London Electricity with 12 per cent; and Halcrow and Arup, design engineers with 2 per cent each.

The LCR members have committed an initial £100m in equity capital to the project. They have obtained financial commitments from their bankers for considerably more than the additional £150m-plus needed to finance the initial stage, when detailed designs are completed and construction contracts signed, said Mr Nick Wakefield of SG Warburg.

The consortium will be required to spend £2bn of its own money and have completed two-thirds of the project by value before any direct cash contribution is made by the British government in 2000.

Britain finally on right track

By Charles Batchelor

While Britain has dithered over the construction of its high-speed rail link, France and Belgium have pushed ahead.

France started building its 208-mile Calais-Paris link in 1990 and completed it in less than three years at a cost of about £2bn ($3.1bn).

The swift completion of the project reflects the French government's commitment to comprehensive long-term transport planning and its willingness to devote large sums to it.

The French engineers also benefited from the fact that once outside Paris the route passes through lightly populated agricultural land and, in the Pas de Calais region, through an area which had suffered severe economic decline.

Towns battled for the privilege of intermediate stations on the route. Lille, which has become the hub for cross-Channel services, has developed a modern commercial and retailing centre around its new high-speed station. Compensation for French householders and businesses which lost land lost to the new route is more generous than in Britain.

In the UK, by contrast, the route passes through prosperous areas of Kent densely populated with articulate Conservative voters keen to preserve areas of natural beauty.

Belgium is constructing a 55-mile high-speed link across the Belgian/French border to Brussels. The first section of track near the border is due to open in June but the line will not be completed until May 1998.

In Belgium talks are also going on with the Dutch and Germans about extending the high-speed lines to Amsterdam and Cologne.

The opening of Britain's Channel tunnel rail link will provide a big boost to Eurotunnel, or to whoever is then operating the Channel tunnel, by reducing journey times.

The present travelling times of three hours between London and Paris and three hours 15 minutes between London and Brussels do not give the train a conclusive advantage over air travel. Many travellers find flights from Heathrow or Gatwick faster and more convenient. But a 30-minute cut in the journey time by rail should persuade many more travellers to opt for the train.

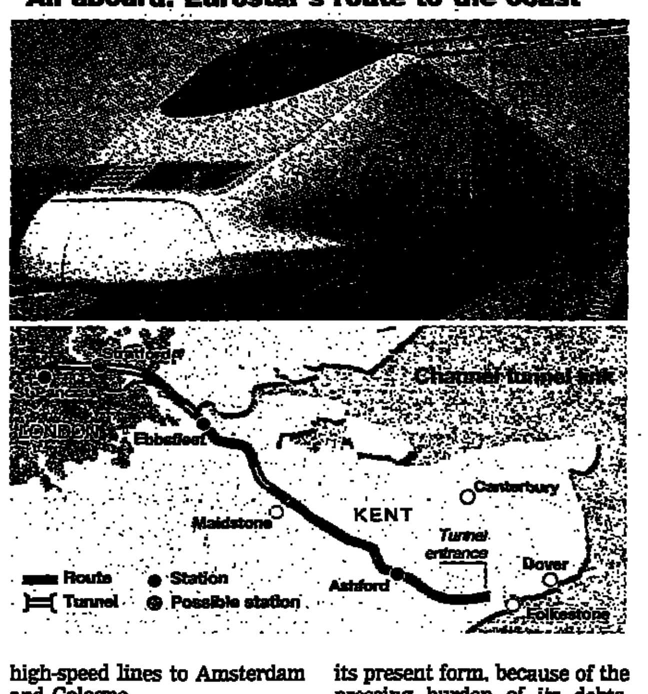
These improvements may come too late for Eurotunnel in its present form, because of the pressing burden of its debts. The company is nearly halfway through an 18-month interest payment moratorium on most of its £8bn of borrowings and still has to persuade its 225-strong banking consortium that a financial restructuring is in their interest.

Unfortunately for Eurotunnel, it has itself played a part in the delays suffered by the rail link project. The experience of the tunnel's financial backers has made the City wary of backing grandiose construction projects. The unreliability of traffic forecasts and a host of practical problems have increased fundraising difficulties for the rail link.

The government and the City have become particularly cautious about backing consortia dominated or led by construction groups. Many of the tunnel's subsequent problems have been blamed on the fact that at the start the project was managed by construction companies with no experience of designing or operating a complex railway system.

While the Channel tunnel was financed purely in the private sector, the rail link will benefit from an injection of public funding. After initially pledging not to put any taxpayers' money into the project, the government fudged the issue by saying it could justify support for the domestic commuter services which will also run on the line.

All aboard: Eurostar's route to the coast



Sep 1987 BR begins feasibility study for Channel tunnel high-speed rail link route to Waterloo
Aug 1988 Details of four alternative routes published. BR told to find private partner
Mar 1989 BR chooses preferred route through south London
Nov 1989 BR selects Eurorail consortium – Trafalgar House and BICC – to build it.
June 1990 Scheme rejected by department of transport. Government funding ruled out. Eurorail withdraws.
Mar 1993 St Pancras replaces Kings Cross as north London terminus
June 1993 Waterloo International station opens.
Nov 1993 Bids to build and operate for 999 years invited.
May 1994 Channel tunnel opens
Nov 1994 Rail link bill starts passage through Parliament
Feb 1996 Winning bidder chosen

Appeal for talks in docks dispute

By Ian Hamilton Fazey

In two new developments in the five-month Mersey Docks unofficial dispute over 329 sacked workers, the TGWU general union yesterday called for fresh talks, while the company published letters from business, shipping and academic leaders urging the International Longshoremen's union in the US not to blockade the Port of Liverpool in support of the sacked men.

The company has so far refused to negotiate directly with the sacked men because the dispute is unofficial and followed an illegal strike.

It said it would think about the union's request for new talks.

Mersey Docks and Harbour Company made what it said was its final offer last month of 40 jobs and severance payments of up to £25,000 ($38,250) for those leaving. The men, who were sacked last September for refusing to cross a picket line, rejected it.

They have demanded 500 jobs in the port, and the sacking of a smaller, replacement workforce. To pressurise Mersey Docks, they are trying to organise a blockade of Liverpool by sympathetic dockers around the world.

The target of the sacked men's attempted blockade is Atlantic Container Line, the largest single user of Liverpool's container terminal. After one of its ships was delayed in ACL's headquarters port of Newark, New Jersey last year, the company said it would consider pulling out of Liverpool if the dispute carried on. The sacked men want Mr John Bower, the US east coast longshoremen's leader, to pressurise ACL to withdraw.

Mersey Docks yesterday took full-page advertisements in Liverpool's daily newspapers to publish extracts from letters to Mr Bower saying that many more jobs will be lost if ACL pull out, mostly involving other TGWU members who have worked normally throughout the dispute.

Cable firm to market speedier Internet access

By Raymond Snoddy

TeleWest, the largest UK cable communications company, hopes to introduce a service next year which will offer subscribers vastly increased speed of access to the Internet.

The company which is developing the concept with the two other largest cable operators Nynex CableComms and Bell Cablemedia believes it will be able to increase the speed of access to the Internet by between 200 and 300 times.

A conventional Internet connection service is likely later this year to gauge the market with the special high-speed modems to follow next year. The cable industry believes that providing cost effective connections to the Internet is just one of a series of interactive services that the cable industry can offer.

Figures from the Independent Television Commission show that the number of cable television subscribers in the UK increased by more than 400,000 during 1995 to a total of 1.32m. The number of telephone lines installed by the cable industry increased during 1995 from 717,586 to 1.419m.

The ITC points out that even though not all cable operators are yet providing telephone services in competition with BT and Mercury, the residential telephone lines installed represent 97 per cent of the number of cable television subscribers, compared with only 71.5 per cent a year ago.

The growth in cable television subscriptions has come largely from the hugh investment in building new cable networks. The penetration rate – the proportion of those subscribing compared to those who could – has not moved at all. At the beginning of January 1995 the ratio was 22.1 per cent and on January 1 1996 it was 22 per cent.

The industry hopes that a new £12m ($18.4m) national advertising campaign will help to stimulate subscriptions.

There is some controversy about the ITC statistics. The industry is allowed to ignore homes which are passed by the cable network but which have not yet been marketed.

TeleWest, Nynex and Bell Cablemedia plan to try to standardise the definitions on everything from penetration rates to churn – the industry term for disconnections.

TeleWest, which last year paid £679m for a friendly merger with SBC Cablecomms, believes consolidation in the UK industry will continue.

It has decided however, not to bid for Videotron, the North American owned cable group which has been put up for sale.

Bell Cablemedia, which has a minority stake in Videotron, has an option to purchase.

Pearson Television, the largest independent producer in the UK, has decided to sell its Teddington studios complex in a deal likely to be worth at least £15m ($23m).

Pearson, the media group that includes the Financial Times, bought the studios as part of its acquisition of Thames Television for £99m in 1993.

It is believed that offers ranging from £8m to £15m have been received for the Teddington complex but no deal has been signed so far.

The decision to sell the site at Teddington Lock in Middlesex with its four television studios has been taken because of the expected international expansion of Pearson Television, which also includes Grundy Worldwide, makers of programmes such as Neighbours. A central London headquarters is seen as important combined with the fact that modernisation is thought too expensive.

Channel 5 Broadcasting, holder of the new Channel 5 licence, in which Pearson is a shareholder, will have its own premises and will not be located in the new headquarters of Pearson Television.

Scottish-based high-tech groups seen improving

By James Buxton, Scottish Correspondent

Electronics companies based in Scotland, long criticised for missing out on the market opportunity presented to them by the presence of big foreign-owned electronics manufacturers on their doorstep, appear to be doing a little better.

Spending by the Scottish plants of companies such as Compaq, International Business Machines and AT&T on subcontract work in Scotland increased by 53 per cent in the year to mid-1995, rising from £402m ($615m) to £615m ($940m).

It grew faster than total worldwide subcontract spending by the multinationals' Scottish plants, which increased by 39 per cent from £2.1bn to £3bn. Scotland's share of this spending was 20.6 per cent compared with 18.8 per cent in the previous year.

Scotland's silicon glen is the home of about 15 major US and Japanese-owned plants belonging to original equipment makers, producing such things as personal computers, microchips and cash machines. But a local electronics subcontracting industry, including UK-owned companies, has been slow to develop.

According to a survey by Scottish Enterprise based on detailed questioning of purchasing directors from a representative sample of original equipment makers, Scotland does well in assembly work, printed ciruit board assembly, plastics and rubber, cables, sheet metal, packaging and printed material.

But it is weak in higher value areas such as producing printed circuit boards, keyboards and power supplies, and does not produce displays and monitors, or disc drives.

The gap in producing displays and monitors will be filled from mid 1997 when a £260m plant being established in Lanarkshire by Chung Hwa of Taiwan starts production. Scottish Enterprise is looking at ways of filling the gap in disc drives.

The survey findings exclude electronic components such as semiconductors, inter-company trading with sister plants and any increases in in-house capacity within the original equipment makers' plants.

Mr Alex Bryce, head of manufacturing at Scottish Enterprise, said the study showed that Scottish subcontractors were increasingly competitive and had scope for expanding into export markets.

Gas regulator to speed up introduction of competition

By Robert Corzine

Ofgas, Britain's gas industry regulator, is to get the go-ahead to speed up the second phase of gas competition from January 1 next year, at least three months earlier than the current timetable.

The first phase of gas competition is due to begin on April 29 among half a million households in Devon, Somerset and Cornwall in southern England.

The proposed extension of the regulator's powers means that 2m consumers in southern and southwest England may enjoy discounts of as much as 25 per cent off their present gas bills in the run-up to a general election.

Ms Clare Spottiswoode, director-general of Ofgas, said yesterday "the omens look quite good" that she would be able to speed up the process.

Under the government's plan she would also be authorised to bring forward full competition for Britain's 19m domestic gas consumers on January 1 1998, rather than much later in the year as currently envisaged.

Any acceleration of the timetable to full competition would add to British Gas's financial woes. It is expected to face a large-scale loss of domestic customers as the market is gradually opened up.

Meanwhile, one of this decade's most important energy developments in the UK overcame local objections yesterday when North Norfolk District Council approved the construction of a big gas pipeline between Bacton on the Norfolk coast and Zeebrugge in Belgium.

The £500m ($765m) UK-Continent Gas Interconnector, due for completion in October 1998, will allow for the first large-scale exports of natural gas from the UK to mainland Europe. It is one of the final pieces needed to complete a pan-European gas grid that will eventually stretch from Ireland in the west to massive Russian gas fields in the Arctic.

Last year the Department of Trade and Industry declared the Interconnector to be a project of strategic national importance. But local residents of the area along the North Norfolk coast objected to the consortium's plans to locate a gas compression station, containing four big jet engines, on an open hillside near an existing British Gas terminal.

The nine-company consortium behind the project is led by British Gas and includes leading international oil and gas companies. Among them are British Petroleum and Gazprom, the Russian gas monopoly.

Earlier this month Mr Philip Nolan, the managing director of the Interconnector, withdrew the controversial proposal in favour of a plan that will place the compression station within the existing terminal.

Welcoming yesterday's decision, Mr Nolan said: "It is good news for the UK, East Anglia and all Europe and will be warmly received by all sectors of the industry."

Contracts to build the offshore and onshore sections of the pipeline will be awarded in the next few weeks, according to Mr Nolan. Financing is expected to be in place by the end of March.

About 150 jobs will be created during the construction phase of the project, which is due to start this autumn. Only six permanent employees will be needed to run the completed Interconnector.

Mr Nolan said an export outlet for UK gas would encourage continuing exploration and development of North Sea gas reserves. He noted that more than 5,000 jobs in nearby Great Yarmouth are dependent on the southern gas fields off the Norfolk coast.

British Gas and other North Sea gas producers see the Interconnector as one of the main ways to eliminate a gas surplus that has dragged down spot prices over the past year. Gas prices in Europe are considerably higher than those in the UK.

The first contract for the export of natural gas from Britain to continental Europe was announced last week by Conoco.

The UK is expected to have sufficient gas reserves to support exports until sometime in the next decade, when the flow of the Interconnector may be reversed to allow imports from Russia and elsewhere.

UK NEWS DIGEST

Rifkind upbeat on EU membership

Mr Malcolm Rifkind, the foreign secretary, yesterday promised MPs sympathetic to further European integration that the government's forthcoming paper on the European Union would unequivocally state the merits to the UK of membership. In an indication that the government has not been pulled to the Eurosceptic right by Tory MPs pressing for a repatriation of EU powers, Mr Rifkind was reported as promising that the government's position "will not be hostile to the EU".

In preparation for the Intergovernmental Conference on future European development that begins later this month, the government will issue a white paper on its negotiating position on March 11. According to a cross-party group of MPs, who met Mr Rifkind yesterday, the foreign secretary "assured us that the government's white paper will take an unequivocal attitude that the UK's membership of the EU is a good thing". *James Harding, Westminster*

Anger at university cuts

Britain's university vice-chancellors yesterday reacted angrily to the news that they face budget cuts of more than 2 per cent in cash terms next year. They called for a moratorium on further cuts in funding for 1997-98 and restated their threat to levy a £300 registration fee on new students next year.

The Association of University Teachers described the funding cuts, announced yesterday, as "butchery". It said many universities were their towns' biggest employers and claimed the cuts would lead to more than 10,000 job losses.

The University of Cambridge was among the seven institutions to take the steepest cuts, which amounted to a "worrying" cut in real terms of 7 per cent, it said. *John Authers, Education Correspondent*

Investment projects warning

Serious damage could be inflicted on the long-term investment projects of UK companies in emerging markets because of complex proposals in the finance bill, according to accountants Ernst & Young. The Labour party highlighted the issue at yesterday's hearings of the finance bill standing committee. E&Y said the new corporate debt regime would mean that companies financing major projects abroad by loans would have to pay tax on the interest as it accrued. Under the old system they could wait until repatriating the interest, or capital repayment, before paying tax.

"These proposals will operate to the commercial disadvantage of UK business and could damage relations between Britain and the emerging democracies," said Mr Jim Marshall, head of the energy tax practice at Ernst & Young. The government recently tabled amendments to the clauses on corporate debt but the accountants said they had failed to solve the problem. *Jim Kelly, Accountancy Correspondent*

More play lottery than vote

More than 40m people play the National Lottery on a double rollover weekend, more than vote in a general election, Camelot told a panel of MPs.

The operator of the National Lottery faced criticism from the National Heritage Committee investigating the Lottery, culminating in the accusation that it had won a monopoly right to "plunder the public." Mr Joe Ashton, the Labour MP, asked: "How can you possibly justify the sort of money you are making in profit?" He calculated that Camelot's predicted earnings translated to a "phenomenal" £108,000 for each of its 600 employees. Mr Tim Holley, Camelot chief executive, promised that Camelot would never make more than 1p in the pound, adding a pledge that Lottery tickets will stay at £1 for at least the next five years. *James Harding*

Pensions blow to government

The government suffered a humiliating defeat in the House of Lords last night as peers voted to allow pensions to be split between couples who divorce.

In a landmark decision that will have substantial consequences for the pensions industry and Treasury income tax revenues a cross-party coalition of peers voted for a Labour amendment to the family law bill allowing occupational and funded pensions to be split at the point of divorce.

Baroness Hollis of Heigham, Labour's social security spokeswoman in the upper house, said the decision was "a great victory" for divorced women, ensuring many would "no longer have to face the prospect of retirement in poverty."

Ministers were adamant that the new clause had "significant implications" for the public finances – and did not rule out trying to reverse it when the bill comes to the Commons later this year. *James Blitz, Westminster*

California case transferred

Lloyd's of London has succeeded in having a case brought against it by securities regulators in California transferred to a federal court. The California department of corporations is seeking to prevent Lloyd's drawing down on letters of credit provided by lossmaking investors, or Names. Similar actions by securities regulators have been mounted in Missouri and West Virginia. *Ralph Atkins*

Box office record broken

Top five films*

This wk.	last wk.	* Feb 23-25
1	1	Jumanji
2	–	Casino
3	2	Heat
4	–	Sense And Sensibility
5	–	Trainspotting

Source: UK Box Office

The opening of three hit films – *Casino*, *Sense and Sensibility* and *Trainspotting* – helped set a new record for British cinemas last weekend with the top 15 films taking £7.6m at the box office, according to Screen International, the film industry magazine. The previous record was £7.2m taken in the weekend when *Seven* opened in early January. Martin Scorcese's *Casino* took £1.1m in three days, in spite of being almost three hours long, which meant that most cinemas were limited to one showing per evening. *Sense and Sensibility*, starring Oscar nominees Emma Thompson and Kate Winslet, took £629,152 and *Trainspotting* took £551,920. The highest grossing film was *Jumanji*, starring Robin Williams, which is now in its second week in the UK and took £2.42m last weekend. *Alice Rawsthorn*

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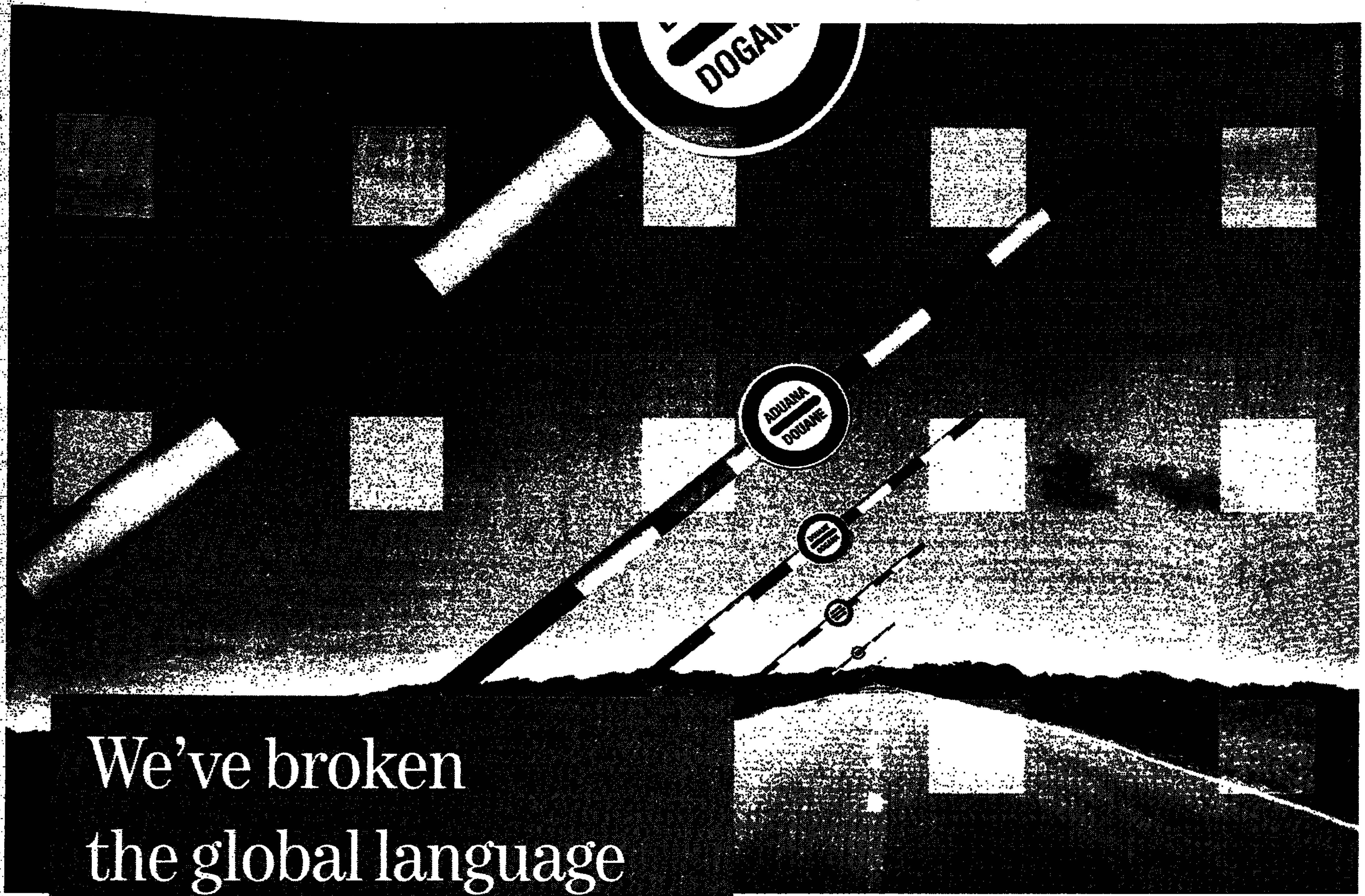

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IT Senior Appointments

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RECRUITMENT

JOBS: The introduction of flat management structures can be beneficial to companies, but in practice this is not always the case

Life after restructuring

The consultants' advice has been followed precisely. The restructuring has gone ahead and several layers of management have disappeared along with their incumbents. How are the remaining employees shaping up?

Linda Holbeche, research director at Roffey Park Management Institute studied career development in 25 UK public and private sector organisations all of which had introduced flatter management structures. She found that the surviving employees could be divided into winners and losers.

The winners are often entrepreneurial spirits who are pragmatic about change and good at influencing people. "By and large these are the experienced people who challenge themselves and the status quo to find a better way to do things," she says.

"They have a strong sense of who they are and what is important to them. Status may matter less to these people than the opportunity to play a significant role."

In contrast, Holbeche's so-called losers are disillusioned employees with low morale. They blame their lack of promotion prospects on factors outside their control such as luck, fate and age. Holbeche found two main groups which struggled to come to terms with a changed structure and its implications for career development – the young, ambitious new recruits and the experienced, mature senior managers whose job had been downgraded in the restructuring.

While businesses may want to hold on to those referred to as "winners" by Holbeche, the often piecemeal or ill-thought out ways in which some reorganisations are carried out means that many of these people are among the first to leave. This is because the winners can soon become disillusioned if the old-style "command and control" management is still in place.

Out of 26 individuals who were placed in the "winner" category by managers questioned in the study, 15 had left their employers shortly after reorganisation, Holbeche said. One of them, returned as a consultant to her former employer, earning three times as much as her previous salary for just three days' work each week.

One noticeable change for the employee who becomes a contractor or consultant, says Holbeche, is that the boss-subordinate relationship with former managers changes. "In the new relationship what the former employee has to say is taken more seriously," she says.

Holbeche found that some managements were paying a price for restructuring in demotivated staff and poor performance. Part of the problem, she says, is resistence to change by entrenched managements.

Holbeche says many managers were poor communicators – often pivotal to change programmes. "In some cases, managers felt the victims of change rather than the drivers of change and that they were likely to be communicating their own negative attitudes more strongly than the organisation's vision," she says.

Holbeche says there has been a "strong trend" away from command and control management to more open management, but that companies have not changed as much as some management rhetoric suggests.

David Guest, professor of occupational psychology and Kate Mackenzie Davey, senior research fellow at the Department of Organisational Psychology, Birkbeck College, University of London, are carrying out their own research into the impact of organisational change on careers. The Careers Research Forum, a group of 36 companies is helping to fund the work.

Guest and Davey have found that the degree of change has been overstated and that many restructuring programmes have proved to be transitional arrangements, leaving traditional hierarchies largely intact.

They say that in many cases the number of grades for a job have been reduced, but the cuts are often deepest for junior grades. "It was notable that top management had sometimes been protected from cutbacks," they say. In their study, one human resource manager complained that flatter structures meant that the promotional step was often too steep for most people, resulting in more movement in and out of the company.

A staffing review at Nestlé resulted in the introduction of greater flexibility, team-working and project work. The company rejected other suggestions such as self-development, mentoring and career workshops.

Another company in Guest and Davey's study opted to reintroduce a hierarchical structure to give employees more time to learn new skills on the job under management supervision.

Guest says: "Companies were worried that they had not done many of these structural things they were reading about and they found it quite comforting that they were not alone."

Guest and Davey say that many companies have introduced flatter structures despite positive attitudes to the hierarchical structures that previously existed.

It seems some companies struggle to embrace large-scale organisational change while others are more able to adopt gradual change tailored to specific needs.

There is another category of company, however, which has successfully introduced large-scale change and has grown with flatter structures. Holbeche believes that many of those companies which have implemented changes most successfully are those which have managed to provide a status free environment.

She says, however, that many managers who at first seem anxious to introduce flatter structures, usually for cost-cutting reasons, are unwilling to confront the implications of change themselves, for example, parting with the BMW in its personal parking spot, the large, comfortably furnished office, the finely tailored suit and the personal secretary.

First Direct and Asda have successfully implemented changes because they have directors who are committed to making it work.

The Rover Group has worked hard to introduce single status throughout the company, although it has been particularly difficult, for example, to persuade white collar workers to join the assembly line.

Change which requires managers to relinquish status perks may seem trivial but is important not only to other employees who want to see evidence of senior managers taking part in the process, but to the senior staff themselves – they must face up to the psychological gear-change necessary to look at careers in a horizontal rather than vertical sense.

Holbeche found that some employees had difficulty accepting sideways moves. Others, who had built up files of knowledge during their time in a company were reluctant to leave this behind and start again in another area in the company.

Managers were also sometimes unwilling to release experienced people to other departments. She says that secondments are a useful way of stimulating lateral moves.

Increasingly research suggests that restructuring is more difficult to achieve than at first believed, that most of the changes that have passed for restructuring have been cost-cutting programmes triggered by recession, and that many businesses can in fact continue perfectly well without radical change.

Only those companies with committed managements who are visionary enough to change by example can hope to make the transformation a success.

Career Development in Flatter Structures by Linda Holbeche can be obtained from The Learning Resource Centre, Roffey Park Management Institute, Forest Road, Horsham, West Sussex RH12 4TD, tel 01293 851644, price £42.

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Splitting image

Andrew Jack wonders if the Anglo Saxon fashion for demerger is influencing French companies

The announcement earlier this week by Chargeurs, the French media and textiles group, that it plans this summer to split into two separate quoted companies has raised eyebrows in corporate boardrooms across the country.

After the group's shares were suspended on Tuesday morning ahead of an announcement, rumours – swiftly denied by the group – began circulating that it was to sell its 17 per cent stake in BSkyB. In some ways, the reality revealed later in the day was far more striking.

Chargeurs, a peculiar and highly personal collection of assets built up by Jérôme Seydoux, the chairman, is to be demerged into Pathé, containing its cinema, television and newspaper interests; and Chargeurs International, holding its textiles and distribution businesses.

After AT&T and ITT in the US, and ICI and, more recently, Hanson in the UK, it seems that the corporate trend towards businesses *splitting up is beginning to spread* into continental Europe. Chargeurs is the first such example in France.

The question is how far the board's decision was taken on the same grounds as its *confrères* in the Anglo-Saxon world, and how many other French companies are likely to follow its lead.

"By and large, this reflects the international trend," says Pierre-Yves Gauthier, an analyst with Crédit Lyonnais.

"There is pressure coming from shareholders and from international competition."

In France, one of the key stumbling blocks in the past to demergers has been a cultural one. The Paris bourse still contains a number of holding companies with a rationale more linked to a history of empire-building by strong top executives than to any real business logic or synergies between operations.

The widespread practice of cross-shareholding, with companies taking stakes in each others' capital and offering reciprocal seats on *their boards, has created an* environment in which there is often little serious controversy or demand by large investors for change, let alone for maximising shareholder value.

Chargeurs remains very much Seydoux's company. He now holds 29 per cent of the group, and under the terms of the proposed split – one share in each of the new companies for each share held in the current group – his presence will remain strong in both.

His influence is one explanation put forward for his decision last year to agree to contribute most of a new FFr70bn (£9.2bn) recapitalisation designed to save *Libération, the loss-making daily* French left-wing newspaper, from bankruptcy.

In 1995, he wrote off FFr140m in financing of the paper, and many believe his decision has far more to do with personal alliances and beliefs than any business rationale. His strong ownership of Chargeurs means he could get away with the decision without facing a strong attack by investors.

Nevertheless, it seems that Seydoux felt the need to respond to the concerns of his fellow shareholders, arguing that one consequence of the demerger would be the chance for investors to have a direct stake in a series of *"homogenous activities"*. *Certainly,* his group often traded at a share price giving it a market capitalisation as low as half the value of its net assets, reflecting what one executive says was a lack of comprehension by investors in the group.

Chargeurs' decision also seems to have reflected the growing management belief in concentrating on "core competences". It justified the demerger with references to "better concentration" on strategy and competition, more effective use of its staff, and the prospect of new partnerships in each sector.

There is certainly no shortage of companies in France which share Chargeurs' problems as holding entities with diverse activities which are trading at a discount on the stock market.

Other French executives are talking more about focusing on their core businesses. For example, Crédit Lyonnais, the state-owned bank, has in the last two years removed FFr135bn in non-core assets from its balance sheet, including all of its participations in industrial companies, and much of its property portfolio.

Indosuez, the banking arm of the Suez group, has withdrawn entirely from property lending, as has its parent, and recently announced its intention to focus on certain banking activities in clearly-defined regions: Europe and the near and Far East. Pechiney, the aluminium producer, undertook a number of sell-offs of operations outside its main business in advance of its privatisation last year.

"Demergers are as necessary in France as they are anywhere else," says a tax adviser with consultants Deloitte Touche Tohmatsu in Paris, which was involved in *advising* Chargeurs on its proposed new structure.

He points out that, three years ago, the Patronat, the French employers' federation, lobbied hard for a change in the law which would make the process easier. There appeared to be no shortage of interest in the idea from among its members.

Yet he argues that tax has been a key stumbling block. French groups have been held back in the past because the tax office has required any demerger to be treated in the same way as a liquidation, subjecting deals to some 60 per cent tax. It has also demanded an awkward negotiating game, with neither the company nor the inspector willing to commit themselves to a deal before the other.

Chargeurs says that its demerger has already been approved by the authorities, and will be tax-neutral. As part of the deal, Seydoux has agreed to hold on to his shares for the next five years.

Nicholas Clive Worms, chairman of Worms & Compagnie, a Paris-based holding group, says he seriously considered a demerger last year, which could have separated his industrial and financial holdings into two. But he changed his mind after trying to negotiate. "The conditions imposed by the fiscal authorities were impossible to accept," he says.

Given Chargeurs' precedent, a number of senior French executives may well reconsider the possibility of demergers, and other ways to refocus their businesses in a way which will help enhance shareholder value. But progress is likely to be extremely slow.

Jérôme Seydoux: under pressure from shareholders

JOHN KAY

The coming age of a shop for all markets

Retailing exists because consumers are ignorant, small, and immobile. When I plan tonight's supper, my first problem is that I do not know the range of options available. Nor, within that range, do I know what is good and what is not. I ask the retailer to search and select on my behalf. Having decided on baked beans, I face my second problem. I am small. Facing the might of Heinz and the power of Crosse and Blackwell, *it is difficult for me to* negotiate a good price. The retailer aggregates the demands of many potential customers and bargains on behalf of us all.

And then I find it rather inconvenient to visit the Heinz factory to collect my beans. My third problem is my immobility. I would rather pick up the beans from some more convenient location, close to home, and, ideally, with a car park.

Retailing exists to solve these three problems. The three components of retailing are product search and selection, purchasing and delivery logistics. In grocery distribution, all these functions have come together – Sainsbury and Tesco do them all.

That was not true some thirty years ago. There are some markets in which a different agent performs each of these three functions, like pharmaceuticals (see table). That doesn't sound like an organisation system that will last. And there are other industries, such as financial services and *travel, which have yet to organise* themselves clearly on the functional lines.

So where does electronic home shopping fit into this picture? It doesn't resolve the problem that I'm small. And it doesn't help much with the logistics either. There are one or two products that you can send down a wire into people's homes, like videos and banking services, but no technology yet devised can deliver a can of beans or a washing machine on the Internet.

The service of electronic ordering of food shopping has existed for a long time. It used to be called ringing up the grocer, who would send his delivery boy round on a bicycle. It is a service that largely disappeared, because it costs too much to provide. And nothing has changed those basic economics.

What modern technology offers that is new is a capacity for structured search – to interrogate the electronic media to search for the goods and services you want. New technology may not resolve the problem that I'm small, or deliver the product: but it helps reduce my ignorance, or at least helps me to organise it. So the ideal product *for electronic shopping is the* washing machine, a product sufficiently complicated and sufficiently expensive to justify an effective search across the available product range, and too big and bulky to be taken home by the shopper.

Yet while people can buy washing machines today off the catalogue or on the phone, mostly they don't. What they actually do is rather peculiar. They visit a display of washing machines. All of *them look virtually identical,* and they sit in the middle of the shop floor, devoid of plumbing or electricity, like beached whales. If you asked the assistants to demonstrate one working they would assume you were off your head. All you get from the display is the comfort of physical contact with the machine. You can touch it, you can feel it. One way or another, that seems to be very important.

Maybe virtual reality can deliver the same reassurance. *Somehow, I doubt it. What* really drives changes in market and industry structure is not simply the availability of technology, but changes in the underlying economic and commercial structures. Remember again that retailing exists because consumers are small, ignorant and immobile. And that group of problems applies to almost everything we buy. Yet what is retailed amounts to little more than half of consumer expenditure. The other half of what we spend is varied. It includes housing, utilities, financial products, petrol and many kinds of services – cleaning, car maintenance, conveyancing.

There is scope for retailing almost all of these, where retailing means providing the combination of search and selection, effective purchasing, and convenient distribution logistics which are the characteristics of those retailing activities that already exist. You can already see this happening. Supermarkets have captured a quarter of the petrol market, you can make withdrawals from your bank account from a machine on their sites or through their tills, and Marks & Spencer will make you a loan or sell you a unit trust.

As competition comes to utility markets, a surprising range of companies will emerge as suppliers of gas and electricity. And why can't the house shop take over from the estate agent and the money shop from the bank? Some of these new retailers will be physical shops like those we are used to, others virtual shops at the end of the telephone. The half of consumer expenditure that is retailed could rise to three quarters. There is a scope there for a very different industrial structure to the one we know today.

What is retailing?

Customer problem	Retailer function	Food	Pharmaceuticals
Ignorant	Search and selection	Retailer	Doctor
Small	Bargaining and purchasing	Retailer	NHS/Benefit manager
Immobile	Distribution logistics	Retailer	Pharmacy

هكذا من الأحوال

ARTS

Just mad about the boy

But emulating Noël Coward is not easy. Alastair Macaulay reports

Sooner or later, if you live in England and like doing so, you are likely to fall in love to some degree with Noël Coward. The test of maturity is, to my mind, the degree to which you then fall out of love. Some aspects of Coward are forever shrewd and disarming and enchanting. Others were always mere façades and are now wearing very thin indeed.

By chance, two different Coward shows have just arrived in the West End. *Present Laughter*, with Peter Bowles in the most stellar and funny role Coward ever wrote for himself, is at the Aldwych. Down the road at the Vaudeville, Peter Greenwell – who worked with Coward, and whom Alan Jay Lerner once called "The best Noël Coward since Noël Coward" – accompanies himself in a one-man anthology of Coward songs and stories, *A Talent to Amuse*. Both shows confront us again with Coward's own persona, cultivated so carefully in order to take English society by storm. And in this respect, of course, the rapid-fire Coward resembled the languorous Oscar Wilde. How both men dressed, and what they said in private life, mattered as much as what they wrote.

Coward first branded his persona onto English society in the 1920s. "I lent that woman the top of my Thermos flask and she never returned it. She's shallow, that's what she is, shallow." With that line in *The Young Idea* (1923) – as Kenneth Tynan wrote in 1977 – Coward first expressed a type of humour new to British comedy; and captured the brittle escapism (sometimes while criticising it) of the clever young people trying to shake off the shadow of the first world war. Coward's polished veneer and his brisk, clipped diction stamped the 1920s – but he was just as quoteworthy in succeeding decades.

Tynan also wrote, in 1953, "Even the youngest of us will know, in 50 years' time, exactly what we mean by 'a very Noël Coward sort of person.'" That remains true, even for those not born when Tynan said it. Yet what is a Coward sort of person? The Coward sort is urbane, witty, theatrical, charming. But a Coward type is also very contained; is concerned more with polished effect than with raw truth; dilutes wit with sentimentality; and has no moral weight whatsoever. It is in this last respect that Coward differs most clearly from Wilde.

When Coward tried to depict serious emotion between man and woman, as in *Private Lives* and songs like "I'll see you again", he told charming lies. When he tried to depict the state of the nation, as in *Cavalcade*, or wrote tenderly idyllic songs about London, he created twee fiction. What he knew most about was sexual attraction between men, the conventions of English society, and the ways of theatre folk. Homosexuality he seldom dared to touch on (though in *A Song at Twilight* he did so with great seriousness and nerve, unearthing the buried homosexuality of an often odious writer who largely resembled himself).

The patterns of English society always stimulated him; there is usually a hilariously inappropriate maid in his comedies, and several vintage English-eccentric caricatures (see Madam Arcati in *Blithe Spirit*). As for theatre folk, he was in every sense most at home with them. In *Hay Fever*, the theatricality of the Bliss family is hilarious because it is so bad-mannered. And the two central jokes of *Present Laughter* are the extents to which Garry Essendine, a West End star, is (a) theatrical offstage (b) incapable of dealing effectively with the people who, thanks to his theatrical brilliance, are infatuated with him. Few of his songs have the visceral force of "Don't put your daughter on the stage, Mrs Worthington".

Alas, Richard Olivier's staging of *Present Laughter* (the 1947 text, slightly adjusted) makes Coward's portrait of his own offstage life as tinselly and hollow as his less sincere work. Though Garry, Monica, Liz, Henry and Morris keep saying that they have known each other for many years, it is impossible to believe that here. As Garry, Peter Bowles has suavity and relaxation on his side. But his manner is too unflappable, his nervous system too inscrutable; and he is particularly unconvincing in every tirade. Whenever Garry turns on the theatrics, Bowles's hamming is terrible; he does not know how to show us that Garry is the brilliant (if sometimes artificial and exaggerated) stage actor that everyone agrees he is. Or that Garry himself hardly knows when he is not acting.

A Talent to Amuse, unfortunately, never distinguishes Noël genuine from Noël fake. "Sweet and beautiful ladies, sigh no more" is the kind of synthetic sentimentality in which Coward was most insufferable. Likewise his twee patriotism. Only one side of Noël here seems sincere: the coldly expert entertainer. As Greenwell's piano turns out the pastel tunes of "I'll follow my secret heart" etc., you start to feel how smartly Coward planned such tosh to go over big with his audiences – with the middle-aged ladies in Goring-on-Sea whose belief in his heterosexuality he thought was too valuable to undo.

No, Coward was not a great songwriter. Still, great singers – Yvonne Printemps (who may have been the best for whom he wrote), Joan Sutherland, Barbara Cook – have made surpassing effects with his music. And you do not have to be a great singer: Gertie Lawrence sang flat, but hauntingly. Coward's own recorded performances are completely uninteresting as singing, but several of them are virtuoso affairs of verbal delivery. (That Gatling-gun attack.) Greenwell, alas, has a Benny Hill face and a Quentin Crisp voice. He can almost never sustain an open vowel, and he flicks at notes with a grey thread of voice. More important, he brings no individual insight into any of the songs.

True, there are numerous funny lines. The second encore is a hilarious, hitherto unknown, gay-man extra verse of the famous song "Mad about the boy". ("People I employ/ Have the impertinence to call me Myrna Loy./ I rise above it./ I simply love it/ Because I'm mad about the boy.") Nonetheless, this is simply a mimsy trip down memory lane, and its underenergised camp makes Coward appear a yet more minor artist than he was. It leaves you feeling that Greenwell is the worst Noël Coward since Noël Coward.

Present Laughter is at the Aldwych Theatre; A Talent to Amuse is at the Vaudeville Theatre.

Caroline Langrishe and Peter Bowles in 'Present Laughter' — Alastair Muir

Ballet

Dance in the '50s

As part of the city's *Towards the Millennium* celebrations, Birmingham's Royal Ballet is presenting a triple bill of works created during the decade of the 1950s. It is an odd, if illuminating, programme of Ashton's *Birthday Offering*, Balanchine's *Agon* and Jerome Robbins' *The Cage*. Played – as it was on Wednesday night – in that order, it suggests a meal in which one starts with a very sweet pudding, proceeds to a culinary masterpiece (I can think of no dish as concentrated or as full of flavour or as enduringly nourishing as *Agon*) and finishes with Robbins' highly spiced steak tartare.

It is good to report that BRB is dancing in brighter form than at the start of the season. *Birthday Offering* looked more like itself, and will be almost wholly recognisable when it is lit as if it is the celebratory and sunny piece it once was, rather than a visit, in a storm-tossed twilight, to a municipal cemetery. Amid the encircling gloom of Peter Farmer's cloud-wracked set, the dance shines fitfully, but the dancers now entrusted with those subtle, witty solos are much more mistresses of their tasks. Only the central Fonteyn/Somes passages are still a bunch of *immortelles* from the grave of the dear departed: Sabrina Lenzi and Kevin O'Hare offer desiccated accounts of sublime choreography.

Agon was given most a creditable interpretation, the clarity of the dance much helped by a taut reading of the score under Leslie Dunner. There is not quite – not quite yet – the muscular inevitability the piece has in New York, but the aerodynamic efficiency and motor force of this staggering, stunning ballet are understood, and Monica Zamora and Joseph Cipolla give a highly charged and absolutely convincing account of the great duet. I was also impressed with the men – Chi Cao, Robert Parker, David Justin – who caught the sportive clarity of their dances: the great *bransle simple* was as tremendous as the sound of its two trumpets in canon cleaving the music's texture.

About *The Cage* I can give only a partial report. Robbins made it in 1951, and it shocked the public. A community of insect women initiates a novice (the part was made for Norah Kaye, who was unforgettably menacing in it) into its ritual of dealing with the male: copulate and kill. The music is Stravinsky's *Basler* concerto, but the theme is *Giselle* Act 2, and the chill inevitability of the proceedings (a conflict between momentary passion and tribal demands is won by the need to despatch the male intruder) has always made the piece "strong" theatre. Various caprices of time-tabling meant that I could see only half of the performance: I record simply that the staging looked good; that Monica Zamora was excellent in Kaye's role; and that Catherine Batcheller had the right forbidding presence for the Queen of the tribe. I shall hope to discuss it more fully before long.

Clement Crisp

Recitals/**David Murray**

Three keyboard virtuosos

Leon McCawley, like Mark Anderson, is especially remembered for having lost out at the 1993 Leeds Piano Competition to a competent Italian whom nobody seems to remember at all. The next year, McCawley and Anderson both gave finely played Wigmore recitals, though I thought McCawley's much more uneven than Anderson's mature readings (Anderson is 10 years older, after all). On Sunday McCawley appeared at the Queen Elizabeth Hall, perceptibly more assured, but as bright-fingered as ever.

His clarity and freshness in Mozart's C major Sonata K.330 were delightful to hear. McCawley is never so happy as when spinning an elegantly nuanced 18th-century line. It would have been happier still if he had not, in the repeat of the Allegro exposition, repeated every practised nuance so literally. One cannot believe that when performing, Mozart ever failed to vary his repeats with new lights: a repeat must sound different, just because it is a repeat, and not a first statement.

That is not a very grave niggle. Nor would it be to remark that in McCawley's sternly felt Schubert – the A minor Sonata, D.784 – he sometimes grew harsh and strident in *fortissimo*. This was still a vital, deeply considered reading. So was Schumann's *Kreisleriana*, gaining enormously from McCawley's exposed, eloquent line where too many pianists blur it with indulgent pedalling.

McCawley's Liszt at the Wigmore two years ago, the *Venezia e Napoli* triptych, was short of *diablerie* and virtuoso drive. Here he made much more of the *Rapsodie espagnole*: nothing quite diabolical, but chock-a-block with verve and gleeful finesse. We can expect much more as he grows up.

Artur Pizarro, who won the 1990 Leeds Competition over Lars Vogt, sounded precociously "mature" then – and still does, without having perceptibly matured any further. The day after McCawley's recital he gave a BBC lunchtime concert at St. John's, Smith Square. He chose to devote it to the monster-sonata Paul Dukas composed at the start of our century, between his much earlier *Sorcerer's Apprentice* and his swan-song *La Péri*.

The Dukas Sonata is grossly Franckian: long-drawn-out, upholstered in busy piano-textures, and tortuously chromatic – like his "Variations, Interlude and Fugue on a Theme of Rameau" from almost the same time, but far less pungent and succinctly original than that neglected work. Pizarro dwelt piously over the Sonata in warm, broad tones, but missed both its saving rhythmic energy and the overt virtuosity it expects. It made a long haul.

Further back, young Jack Gibbons played Charles-Valentin Alkan's monstrous 12 Etudes in the Minor Keys (from the early 1850s: they include a 4-movement "Symphony" and a wild 3-movement "Concerto" *sans* orchestra) in the same hall. Without figuring in any major competition, Gibbons has won golden opinions for his Alkan performances – and his "authentic" Gershwin, too: a strange pairing! But it was hard to match the praise for his Alkan recordings with what we heard on the South Bank.

Gibbons' fingers are superfleet, and one way or another he managed to keep things frantically going. On the other hand, his dynamic range seems limited to three or four levels, with a minimal expressive range, and his rhythm is too anxiously metronomic to allow room for Alkan's structural nodes to register properly. Without their monumentally sculpted scale and their rare blazes of flinty feeling, Alkan's long, grandiose movements were reduced to noisy wallpaper.

Has Gibbons really taken stock of the competition, with Marc-André Hamelin far ahead at the virtuoso forefront? There is no point in boarding Alkan with lesser means; and there must be a lot of music which would display Gibbons' fluent gifts without taxing him to so little purpose.

Sponsorship/**Antony Thorncroft**

Tate drums up funds for Bankside

For someone under orders to raise £58m by the end of April, Dawn Austwick is remarkably calm. "Talk to me on April 29 and I could well be a trembling wreck," she says, not very convincingly. Austwick is the project director at the Tate Gallery charged with gathering in the £106m needed to build the Tate Gallery of Modern Art on London's Bankside in time for a royal opening in May 2000.

She got off to a flying start with a £50m contribution from the lottery-financed Millennium Commission. When the lottery and the Millennium Fund were mooted the Tate moved quickly. It was the first of the UK's major cultural institutions to announce its ambitions – to hive off its 20th-century art collection into an impressive new building – and its pioneering has paid off.

Its choice of a site, the conversion of an abandoned power station by the Thames, may not have satisfied those seeking ground breaking monumentality, but Bankside hardly lacks grandeur and, as a prestige central London development which focuses on the modern, the Tate was a natural choice by the Millennium Commission to be the capital's landmark project.

But the commission's £50m grant is based on the understanding that the Tate can produce copper-bottomed pledges for the rest of the money by the spring. At the moment it looks like the Tate will receive two substantial donations, each in excess of £10m, plus a goodly number of gifts of £5m and under. If Austwick can convince the commission, and the Tate's trustees, that 90-95 per cent of the money is wrapped up the fund will start to hand over its £50m.

Although the Tate has many rich admirers – the reclusive American, Edwin Manton, recently gave £12m to create more space in the Pimlico Tate, which continues as a museum of British art – the eclectic crowd, some quite new to the Tate. The City, which is likely to be joined to Bankside by a new bridge, is an obvious target, but the big donations come from private individuals and companies; from the UK and overseas; from lovers of art and philanthropists.

As Dawn Austwick says, "some want to give because we are creating a new London landmark; some for charitable reasons because we are bringing jobs to Southwark, a deprived area; and some because they love modern art". There will be anonymous benefactors, and those motivated by having one of the five planned galleries in the Bankside Tate named after them, an immortality conferred on Lord Duveen in Pimlico. No one has come up with a sum large enough to endow the whole museum with their name, the achievement of sugar magnate, Sir Henry Tate, a century ago.

The director of the Tate, Nicholas Serota, and his trustees have been consumed innumerable lunches and dinners with potential donors and it is unlikely that anything can check the Tate's smooth drive to Bankside. It expects to start converting the building, to the designs of Swiss architects Herzog and de Meuron, in the spring of 1997, and promises that, unlike most other major construction works in the UK, tough budgeting and management controls will prevent an inexorable over-spend.

The Tate Gallery of Modern Art looks like a carefully controlled dry run for the other 11 landmark projects planned to celebrate the millennium. It could actually secure all its £56m by the end of April. This would be pleasantly embarrassing, since the Tate plans a public appeal for 1997 in which its more humble supporters can show their commitment. Whatever happens the appeal will go ahead to raise money for extra refinements – like major paintings to fill the Tate's gaps in Cubist art, German art, Russian art, and more, among the 1,000 works that will be on permanent display at Bankside.

Filling the museum is no problem: 80 per cent of the Tate's current collection is not on view. The extra galleries will encourage donations of works from patrons and artists who are inhibited from giving at the moment because the Tate cannot guarantee a display. But these are among future worries, such as how to raise the £10m needed to cover the annual running costs.

The Millennium Commission needs the Bankside Tate as much as the Tate needs the Commission. Many of the big projects of a year ago with their eyes on millennium money have bit the dust – Albertropolis, Cardiff Bay Opera House, the regeneration of St Pancras – and there must be some major national openings in 2000. The Bankside Tate, neighbour to the Shakespeare Globe and only minutes from a revamped South Bank Centre, has all the right connections. The Queen has been heard to say that it is a good thing the Tate is going ahead or else she would have nothing to open in Millennium year.

The higher than expected revenue from the lottery may give London one more landmark project, probably the proposed new Great Court at the British Museum. But like the Bankside Tate, the exterior of which will retain most of Sir Gilbert Scott's 1950s's structure, the BM scheme improves an existing building. It is a scandal that with the billions of lottery money available neither London, nor the UK, has come up with a major brand new building for the 21st century. A lack of imagination by the commissioners has come up against the unpopularity of modern architecture, with depressing consequences.

INTERNATIONAL ARTS GUIDE

ADELAIDE

EXHIBITION
Art Gallery of South Australia
Tel: 61-8-2077000
● 1996 Adelaide Biennial of Australian Art: fourth edition of this biennial exhibition surveying Australian contemporary art. The Adelaide Biennial, presented in collaboration with the Adelaide Festival, features the work of 20 artists from all over Australia; from Mar 2 to Apr 14.

AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Catalogue des oiseaux: by Messiaen. Performed by pianist Anatol Ugorski. This work for solo piano is based on birdsong as noted and remembered by the composer; 3pm; Mar 2.
Het Muziektheater
Tel: 31-20-5518117
● Michael Nyman Band: with pianist Michael Nyman, violinists Ann Morree and William Hawkes, cellist Anthony Hinnigan, bass Martin Elliot, and saxophonists John Harle and David Roach perform works by Nyman. Including music from the films The Piano, Carrington and The Draughtsman's Contract; 8.15pm; Mar 4.

BERLIN

CONCERT
Konzerthaus
Tel: 49-30-203092100/01
● Borodin Quartet: perform Beethoven's String Quartet No.15 in A minor and Shostakovich's String Quartet No.15 in E flat minor; 7.30pm; Mar 4.
DANCE
Staatsoper unter den Linden
Tel: 49-30-2082861
● Apropos Scheherazade: a choreography by Béjart to music by Ravel, Stravinsky, Rimsky-Korsakov and traditional Iranian music, performed by the Ballet Unter Den Linden. Conducted by Sebastian Weigle, costumes designed by Gianni Versace; 8pm; Mar 2, 8, 9 (7.30pm).
OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Martha oder Der Markt zu Richmond: by Von Flotow. Conducted by Sebastian Lang-Lessing and performed by the Deutsche Oper Berlin. Soloists include Carol Malone and Ralf Lukas; 7pm; Mar 2.

CAPE TOWN

CONCERT
City Hall Tel: 27-21-4617084
● St. Paul's Chamber Orchestra and Choir: with conductor Herman Wagener perform Perotin's Beata Viscera, Dufay's Ave Maris Stella and Gloria Ad Modum Tubae, Purcell's First Ode to St. Cecilia, Fauré's Madrigal, Op.25, Pärt's De Profundis, Cloete's Hiax, Hofmeyr's Introit & Kyrie, and Taverner's God is With Us; 8pm; Mar 2.

COPENHAGEN

OPERA
Det Kongelige Teater
Tel: 45-33 14 10 02
● Madama Butterfly: by Puccini. Conducted by Paolo Olmi and performed by the Royal Danish Opera. Soloists include Gitta-Maria Sjöberg and César Hernández; 8pm; Mar 4.

HAMBURG

CONCERT
Musikhalle Hamburg
Tel: 49-40-346920
● I Musici di Roma: perform works by J.S. Bach and Vivaldi; 7.30pm; Mar 4.
OPERA
Hamburgische Staatsoper
Tel: 49-40-351721
● Armide: by Gluck. Conducted by Gerd Albrecht and performed by the Hamburg Oper. Soloists include Sabine Ritterbusch, Gabriele Rossmanith and Philippe Rouillon; 6pm; Mar 3, 6 (7.30pm).

LEIPZIG

CONCERT
Gewandhaus zu Leipzig
Tel: 49-341-12700
● Edgar Krapp and Berthold Possemeyer: performance on the occasion of the 80th anniversary of the death of composer Max Reger; 8pm; Mar 3.

LONDON

JAZZ & BLUES
Ronnie Scott's Tel: 44-171-4390747
● Irakere: jazz performance by the 12-piece band, with special guests the Stan Sultzman Quartet; 10.45pm & 1am; from Mar 4 to Mar 10.
OPERA
London Coliseum
Tel: 44-171-8360111
● Tristan und Isolde: by Wagner. Conducted by Mark Elder and performed by the English National Opera; 4pm; Mar 2, 7 (5pm).

LUXEMBOURG

CONCERT
Théâtre Municipal Tel: 352-470895
● Solistes Européens: with conductor Jack Martin Händler, and clarinettists Sabine Meyer and Wolfgang Meyer perform Kommer's Double Concerto for Clarinets and Orchestra; Rossini's Variations for Clarinet and Orchestra; 8pm; Mar 4.

MUNICH

CONCERT
Nationaltheater
Tel: 49-89-21851920
● Má Vlast: by Smetana. Performed by the Bayerisches Staatsorchester with conductor Jiri Belohlávek; 8pm; Mar 4, 5.

NEW YORK

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● National Arts Centre Orchestra of Canada: with conductor Trevor Pinnock and pianist Jon Kimura Parker perform works by Beethoven, R. Schumann and Mozart; 7.30pm; Mar 4.
Carnegie Hall
Tel: 1-212-247-7800
● Orpheus Chamber Orchestra: with pianist Bruno Leonardo Gelber perform Beethoven's Coriolan Overture and Piano Concerto No.1 in C major, Stravinsky's Pulcinella Suite, and Sibelius' Valse Triste; 8pm; Mar 4.
● Wiener Philharmoniker: with conductor Seiji Ozawa perform Bernstein's Opening Prayer, Mozart's Symphony No.41 in C major (Jupiter), and R. Strauss' Eine Alpensinfonie; 2pm; Mar 2.
OPERA
New York State Theater
Tel: 1-212-875-5570
● La Boheme: by Puccini. Conducted by Robert Duerr and performed by the New York City Opera. Soloists include Janice Hall, Michele Patzakis, John Fowler and Robert Perry; 8pm; Mar 2, 7.

OSLO

OPERA
Norske Opera
Tel: 47-22-429475
● Mysteries: by Kvandal. Conducted by Kjell Ingebretsen and performed by the Norwegian National Opera; 6pm; Mar 2.

ROTTERDAM

CONCERT
De Doelen Tel: 31-10-2171700
● Imogen Cooper: the pianist performs Schubert's 16 Deutsche Tänze, Klavierstück No.2 in E flat, and Sonata No.18 in A; 4.45pm; Mar 3.

STUTTGART

OPERA
Staatstheater Stuttgart
Tel: 49-711-20320
● L'Italiana in Algeri: by Rossini. Conducted by Gabriele Ferro and performed by the Oper Stuttgart. Soloists include Roland Bracht, Gabriela Herrera, Etusko Kanoh and Gustavo Gibert; 7.30pm; Mar 2, 4, 8.

VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Alban Berg Quartet: with pianist Rudolf Buchbinder perform Berg's Lyric Suite and R. Schumann's Piano Quintet in E flat, Op.44; 7.30pm; Mar 4, 5.
Musikverein Tel: 43-1-5058681
● Maria João Pires: the pianist performs works by Mozart, J.S. Bach and Chopin; 7.30pm; Mar 4.

ZURICH

CONCERT
Opernhaus Zürich
Tel: 41-1-268 6666
● Die schöne Magelone: by Schubert. Performed by baritone Oliver Widmer and Will Quadflieg (recitative); 8.30pm; Mar 4.
OPERA
Opernhaus Zürich
Tel: 41-1-268 6666
● Il Trittico: by Puccini. Conducted by Marcello Viotti and performed by the Oper Zürich. Soloists include Mara Zampieri, Giorgio Zancanaro and Boiko Zvetanov; 7pm; Mar 3, 5 (7.30pm).

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Philip Stephens

A risky business

John Major is right to make compromises for peace in Ireland. But there is little comfort for him at Westminster

Another ceasefire. Possible, not yet probable. John Major and John Bruton have gambled that the IRA might suspend for a second time its war against the British state. The stakes could not be higher. This is a last chance for peace. For Mr Major's administration the domestic politics are equally fraught. Northern Ireland is now inextricably entangled with the Conservatives' perilous position at Westminster. This may also be a last chance for the prime minister.

John Hume, the leader of the nationalist Social Democratic and Labour party, and Gerry Adams, the Sinn Féin president, have put the case for renewed peace directly to the IRA's military commanders. The rest of us should be optimists. It is too easy to be otherwise. Pessimism leads nowhere but to the cul de sac of sectarian violence.

Yet the brutal cynicism with which the IRA has resumed its bombing renders hope much harder a second time. Mr Adams is a pawn. Whatever he might say, the republican movement is under the control of the men with the guns. We saw them stride back into public view only this week.

As Mr Major and Mr Bruton met at 10 Downing Street on Wednesday, the parents of a 21-year-old boy were burying another of the IRA's victims. Strictly speaking, Edward O'Brien was a terrorist, a so-called volunteer. He had blown himself up on a London bus. But Father Walter Forde, the parish priest in the small southern Irish town of Gorey, spoke eloquently of the "sordid godfathers" of violence who had hijacked and perverted a teenager's idealism.

Edward's parents had told the IRA to stay away from the funeral. But these men are comfortable with death. So there they were, hard-faced in the churchyard, proud of their achievement, adding a martyr to the republican cause.

In deciding he must treat with them, Mr Major has taken an immense risk. The communiqué hammered out with Mr Bruton on Wednesday bears the deep imprint of uncomfortable compromise. It takes the British government much further along the road to meeting the IRA's demands than would have seemed possible only a few weeks ago.

The IRA has a firm date for all-party talks. No longer do its military commanders have to decommission a single armalite before Mr Adams is allowed to represent them in all-party negotiations. Sure, Sinn Féin must stand in elections, but it no longer has to sign up in advance to the principles of democracy and non-violence. Once pre-conditions, these are now merely the first item on the agenda of all-party talks. If the ceasefire is restored there will be a seat at the table for Mr Adams on June 10.

I am told that this section of the communiqué was the most difficult to negotiate. It had still to be finalised when Mr Bruton arrived in Downing Street. But there is no doubt that it was Mr Major who made the important compromise. Sinn Féin has got what it asked for.

There were other concessions. If the talks between Northern Ireland's constitutional parties do not reach agreement on the shape and role of the proposed new peace convention, Mr Major will impose his own blueprint. He may also give the go-ahead for a referendum to be held simultaneously north and south of the border, the first all-Ireland poll since 1918.

> The assumption hitherto has been that the nine official unionists would keep Mr Major afloat. Such logic is now less certain

All this has been offered without a guarantee that the IRA will call off its campaign. And if there is another ceasefire, what confidence can Mr Major have that it will stick, that Mr Adams's chums will not simply start bombing again when negotiations run into the inevitable roadblocks? None.

For all that, I still think that Mr Major was right. To have come this far over the past few years but to have stopped short of such a moment of truth would have been to have put smiles on the faces of the IRA hawks. As John Alderdice, the leader of Northern Ireland's non-sectarian Alliance party, put it: "The two prime ministers have laid it on the line for the republican movement – either they can be part of the process or they can continue their self-exclusion and marginalisation." Mr Adams, one might say, has nowhere else to hide.

That though offers Mr Major little comfort at Westminster. The charge, already whispered loudly by unionists and echoed by some on the Tory backbenches, that the IRA has bombed its way to the negotiating table will not be easily shaken off. The government's majority in the House of Commons is fast slipping away.

The looming by-election in Staffordshire South East could cut the majority to one. Death or defection could wipe it out entirely within a matter of months. But Mr Major's chances of a political recovery depend on postponing the general election until the spring of 1997. All hope of snatching victory from defeat rests on the expectation that the next 12 months will see a sustained rise in the voters' living standards. And an October election would deny the government another tax-cutting Budget. You do not have to be a political scientist to appreciate the leverage which now lies in the hands of the unionists.

The assumption hitherto has been that the nine official unionists led by David Trimble would keep Mr Major afloat. Better for them to wield influence over a weak Tory administration than to help put Tony Blair's Labour party in power with a large majority.

Such logic is now less certain. The falling out between Mr Major and Mr Trimble this week over the Scott report on arms sales to Iraq was greatly to the prime minister's credit. He was prepared to offer the unionists general reassurance over Northern Ireland in return for their votes in the House of Commons, but he would not trade the substance of his policy. Mr Trimble was not best pleased. In the event, Mr Major won the Scott vote anyway, saved by the three abstentions of Ian Paisley's Democratic Unionist party. But he cannot be certain of repeating the trick.

Nor will the unionists have failed to notice the harder edge to Mr Blair's voice this week when he warned Sinn Féin not to expect a better offer from a Labour government. And no-one will believe it was a coincidence that Mr Blair chose this week to reverse his party's once-implacable opposition to the Prevention of Terrorism Act. So in the coming wrangling over elections and all-party talks, Mr Trimble can be expected to test Mr Major again. If he secures nothing for his votes he may offer them elsewhere.

Do not write off Mr Major on the basis of such hypotheses. He is resourceful and resilient. Perhaps, just perhaps, his latest gamble will pay off. But even now another Edward O'Brien may be sticking detonators into lumps of Semtex in some seedy south London flat.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Markets must strive for competitive balance

From Sir Hugh Cortazzi.

Sir, Professor Ronald Dore (Letters, February 28) declares that "the Japanese keep up employment precisely by the limitation of competition". This is at best a half-truth. Many Japanese regulations (eg, on the hours during which department stores and public facilities can open or on the number of taxis allowed to operate and the fares they can charge) restrict employment opportunities. Over-regulation in Japan adds greatly to consumer costs and vastly distorts the Japanese economy.

I accept that "competition and efficiency are not the only ends in life". I also endorse the view expressed by Edward Mortimer on the same page ("Surfeit of good things") that there are real dangers in leaving everything to the market. If, for instance, market forces alone were to decide the educational curriculum the UK system of education would be in even more of a mess than it is at present.

The issue is not one of a choice between a regulated economy and a total free market. It is how to balance the differing needs of individuals and the community.

The Japanese model, in the view of many Japanese and foreign observers, is over-regulated and imposes excessive costs on consumers and producers. The system is unfair to the majority as many regulations are designed to protect and enhance minority interests. Farmers, for instance, have a disproportionate influence with politicians because of the way in which Japanese constituencies have in the past been rigged to favour the rural vote.

Hugh Cortazzi,
16 Hamilton Close,
London NW8 8QY, UK

Heading for a fall?

From Mr Chalmers H. Goodlin.

Sir, I was astonished to see Pat Buchanan wearing a black hat in the picture you published on your front page (February 27).

Have Mr Buchanan's early primary successes caused him and his staff to overlook the fact that, traditionally, in western cowboy lore the good guys always wore WHITE hats? Egad, while in Arizona, too!

Charles H. Goodlin,
2615 Granada Boulevard,
Coral Gables,
Florida 33134,
US

Enlightened self-interest the way forward

From Mr A.A. Pelling.

Sir, Pamela Meadows ("When growth fails the unemployed", February 27) believes we can have the cake of increased efficiency and eat it too by some artificial job creation like the discredited community programmes of the late 1970s and early 1980s.

There is a clear risk that the structural unemployment we see now and the lack of opportunities for the less skilled will undermine confidence in our relatively free market systems and in the role of the leading firms in the economy. Especially vulnerable to attack already are the corporate bosses. In the US, Pat Buchanan has touched the rich vein of resentment against the corporate sector. Leading employers would do well to heed the warnings and together devise mechanisms to help new enterprises to create new jobs and trade, as well as to take action with others to protect the viability of the local communities where they operate and on which they depend.

Enlightened self-interest should be preferred to subsidising made-up jobs that lower the status of workers.

In the early 1980s in the UK, the local enterprise agency movement and Business in the Community took on the leadership of job creation and community development efforts using the resources of local employers. This approach was in part copied from the US but now might merit reinvention in the US, with more emphasis being given to protecting the long-term health of the local economy than to outplacement of the recently displaced within an often declining community.

In both the UK and US there are plenty of examples of communities that have pulled out of depression by local joint efforts.

A.A. Pelling,
3814 Seminary Avenue,
Richmond,
Virginia 23227,
US

Protest does not hide Berlusconi influence on Italian TV

From Mr Aldo Patania.

Sir, Sen. Livio Caputo and Mr Riccardo Pera's letter (February 26) questioning the actual extent of Berlusconi's hold over Italian TV stations is a mystifying attempt to cover up the patent imbalance in the distribution of media control in Italy.

Allow me to point out that Forza Italia is the same party that is complaining about the fact that one of the leading ministers in Berlusconi's government, namely Mr Lamberto Dini, is now no longer sufficiently unbiased even to run a caretaker government because of the fact that he has decided to join the electoral race with a party of his own. We are talking of the same man whose name Berlusconi himself put forward to the president of the republic as his successor to the position of PM! Are Caputo and Pera now going to revise the RAI-coverage statistics they mentioned in their letter to include in the centre-left total the time allocated to prime minister Dini?

When is Forza Italia going to stop complaining about other people's partiality and start working on its halo of contrite self-righteousness? For how long are its leaders going to accuse the referee and linesmen of Italian politics of siding with the adversary's camp despite the fact that Berlusconi controls one of the two teams, along with a good chunk of the field where they are playing, most of the lights illuminating the evening game and more than half of the ticket offices where the public pays for the ticket to get inside and watch the game?

Last but not least, someone should inform Caputo and Pera that Mr Biagi, one of Italy's leading journalists, does not "notoriously belong to the parties of the left" and that, if anything, he was vehemently ostracised by one of the main parties of the left during the lingering First Republic, namely the Socialist party and its then mighty secretary Bettino Craxi.

Aldo Patania,
professor of economics,
American University of Rome,
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00153 Rome, Italy

Europa • Michael Stürmer

Cap in hand to Uncle Sam

As long as the European Union is unsure where it is going, Eurodefence will remain elusive

There is nothing wrong with the idea of Eurodefence, except that, so far, nobody has been able to make it work. Since the end of the cold war, the European record on defence co-operation has been rather underwhelming. Several European countries were involved in the 1990-91 Gulf war, for example, but there was no role for Europe as a whole.

In the wars of the Yugoslav succession, Europe was ill-prepared. It claimed an exclusive role impossible to sustain, found itself divided over almost everything, and finally welcomed US leadership plus 20,000 soldiers.

It is a safe bet that the next 10 months will not be enough to put a structure together for the day when the Americans leave the killing fields of Bosnia and the warring parties see a now-or-never opportunity to take advantage of the US departure. This will be a moment of truth for the European role in containing the New World Disorder.

When the North Korean nuclear proliferation crisis reached breaking point two years ago, Brussels took hardly any notice. In the middle east peace process, the Europeans are friendly bystanders, providing infrastructure but not strategic reassurance.

International security, as defined by the European Union, involves the use of economic clout in the form of trade, investment and aid agreements to prevent disasters and to provide stability. With this modus operandi, Europe has claimed more successes than failures, especially in the Mediterranean.

But it should be remembered that not every crisis will go away when a billion Ecu are thrown at it, and that economic growth and social consensus cannot flourish without a stable environment.

In places not given to civil intercourse, containing a conflagration sometimes requires military hardware and sufficient force to deter opponents.

Even in the back pages of the Maastricht treaty (which is, according to the former German chancellor, Helmut Schmidt, a jumble of regulations grouped around the hard core of monetary union) a reminder can be found that there may be a need, one day, for something like a common defence policy through the Western European Union.

But at close inspection, the Maastricht treaty's Common Foreign and Security Policy offers little tangible evidence that anything short of a miracle, or a major disaster, will enable the inter-governmental conference, starting this year, to flesh out an effective Eurodefence.

One would not even need the United States of Europe – which no one except Germany professes to love – to organise Eurodefence. But one would need European security to be organised very differently from the way that it is today. In the past 40 years, all the emphasis in European integration has been on civilian matters, while Nato took care of overall security strategy and the various nation states have looked after their own defence interests.

The accession of Austria, Finland and Sweden to the EU has not made them enthusiastic to join Nato or the WEU, or given more substance to that most elusive of all concepts: the European Strategic and Defence Identity. The inclusion of Poland, the Czech Republic and Hungary in the European Union in the foreseeable future will not simplify matters.

It is probably an illusion to believe that the EU will, without a clearer notion of common interest and a much more centralised mode of governance, be an effective player in the field of security and defence. This will remain with Nato and the nations in Nato.

The WEU, prior to 1989, was a treaty and an organisation in search of political purpose. It served, during the last years of the cold war, to draw France a little closer towards her Nato allies. Since 1990, the WEU has invited many observers and partners to the club.

It could still, if a core group would come together and take matters in its hands, become the steering committee for European defence efforts, including in the armaments and procurement dimension where it is most needed, given the depressed state of the industry. Indeed, how to forge an overriding European security programme and express it via the Western European Union should be foremost on the agenda of the inter-governmental conference. The Combined Joint Task Forces concept, dating from 1994, has been unable to deliver anything in particular. It is suffering from its inherent weaknesses – the absence of a credible player to represent Europe and the need to seek US approval for the use of Nato hardware and infrastructure, even for those actions without US involvement.

If it ever works, it would be for a Nato action after the US had already signalled its unwillingness to participate; if it does not work, it should not be counted as an asset but discounted as an episode.

In the meantime, elements such as the Euro-corps should be continued and built up, pragmatically, much like Franco-British nuclear consultations, British-Dutch amphibious co-operation and Dutch-Belgian naval co-operation.

But here again, the availability of key Nato assets, including headquarters, remains essential because duplication of defence efforts is unacceptable and too expensive.

As long as the European Union is unsure where it is going, Eurodefence will, of necessity, continue to be contradictory, ill-defined and elusive. Even "dissuasion concertée", the nuclear umbrella offered by President Jacques Chirac of France to the European allies, will only be a credible and meaningful concept if brought into the Nato context: the Common Foreign and Security Policy is too light a structure to carry so heavy a weight.

The long and the short of it is that six years into the New World Disorder, Nato remains as necessary as it has ever been – and perhaps even more so in view of the vast dangers of nuclear proliferation and rampant nationalism.

But nobody in Europe should be in any doubt that the US is overstretched now and will soon have to face down China over the balance of power in the Pacific. Among the US population, and even on Capitol Hill, it will be less and less acceptable that the Europeans, so powerful and active on the economic scene, will need Uncle Sam to protect them against their weakness, opportunism and disunion.

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Friday March 1 1996

US is wrong on drugs

Today the US administration passes its annual judgment on whether the rest of the world is doing enough to combat the illegal drugs trade. Certification, as this process is called, epitomises much of what is wrong with the US-led effort to combat drug trafficking.

The judgments are made using a set of bureaucratic yardsticks, which are inconsistent from one country to another and irrelevant to the market in narcotics. It sets the US, the world's main consumer of illicit drugs, in direct confrontation with the world's main producing and processing countries. This not an effective policy for dealing with the international drugs problem. What is clearly necessary is a co-operative international strategy that addresses both demand and supply.

Neither does the current approach further Washington's other foreign policy interests, such as its desire to encourage democratic and market-friendly governments in Latin America. This is most obviously true in Mexico.

The US helped Mexico to emerge last year from a financial crisis with \$20bn of credits and an international support package. Because of this, it would be a surprise if Mexico's certification were to be withdrawn today. Decertification, even with the likely caveat to mitigate the economic consequences, would weaken President Ernesto Zedillo and make his task of economic and political reform more difficult.

Underlying problem

Mr Clinton will face stronger pressure from law enforcement officials to decertify and impose sanctions on Colombia. However, such a move would be seen by Colombians as unwarranted interference in their domestic affairs. The likely anti-US reaction might even have the ironic effect of saving President Ernesto Samper in his fight to survive allegations that he used drugs money in his 1994 election campaign.

The other problem with the certification process is that it helps perpetuate an illusion in America that the drugs problem is entirely the fault of foreigners. Unfortunately, this is the tone of much of the current US political debate.

The underlying problem is that an effort that concentrates solely on restricting supply, either through crop eradication or interdiction, is bound to fail. The differential between street prices in the US and the sums paid to suppliers is so large as to overwhelm any such restrictions. On average, only 0.2 per cent of the New York price of cocaine goes to the peasant who grows the coca. That means traffickers can afford to multiply their payments to suppliers without a large impact on profit margins. A 1993 study by the Rand Corporation concluded that "cocaine supply and control strategies that seize and destroy less than 70 per cent of production, without limiting the total level of production, will have little impact on the market".

Supply chain

This does not mean that efforts at crop eradication, alternative development, interdiction and law enforcement are useless. But they can only work in the context of an internationally-agreed approach. Such a policy would aim at all links in the supply chain, and would include measures to promote open markets for the producer countries' legitimate agricultural exports. It would also ensure adequate funding for eradication and control efforts by all consumer nations including the Europeans; currently the burden falls disproportionately on the US.

Ultimately, of course, the economics is relentless. No drugs control strategy will work without curbing demand. This is a matter of fashion and education. Education has been remarkably successful over a decade in stigmatising the smoking of tobacco. The same can be done for cocaine and other illicit drugs.

What is also needed is a rational public debate on the whole drug issue, up to and including the possible decriminalisation of some currently illegal substances. Society faces serious choices on these questions. Unfortunately, in present circumstances any western politician who attempts to confront them risks his or her political career.

Slow crawl to the fast link

At long last a consortium has been chosen to build the fast rail link from London to the Channel tunnel. It is nearly two years since the tunnel opened, three years since the fast link from Paris to the Channel was completed, and more than a decade since Eurotunnel won its concession to build the tunnel. On the present timetable, trains will start running on the new line through Kent in 2003. It is a dismal story of delay, indecision and incoherent planning.

The worst of the delay may now be past, although on past form only the supreme optimist would place money on yesterday's schedule running to time. Even the necessary enabling legislation is not expected to complete its parliamentary passage until early 1997. At any rate, it is encouraging that the winning London & Continental consortium features groups such as Virgin, with significant transport experience and customer service skills. Neither has been pre-eminent in the Channel tunnel tale to date.

In effect, therefore, yesterday's announcement is little more than interim. It is not fair to blame this entirely on the politicians: governments in England find it harder than their French counterparts to impose their planning priorities. Yet the fact is that the spectrum between best- and worst-case scenarios remains very wide. It is the same for taxpayers, who stand to foot a huge bill for the enterprise, the scale of which is hard to quantify from the available figures.

Flagship programme

It is important not to be hoodwinked by the term "private finance initiative". Ministers have chosen to categorise the fast link as a PFI project – indeed at nearly £3bn in construction costs, the project accounts for more than half of the total value of contracts agreed to date under the government's flagship programme for boosting private investment in public infrastructure projects.

However, in reality the 68-mile Channel link is as much a public as a private investment; and on some interpretations of the figures it may even be costing the Exchequer more than the British Railways option which bit the dust in 1989 through ministerial insistence that the project proceed without government money. And that is without making allowance for the cost of the delay caused partly by the government's futile bid to secure private operators with little or no public subsidy.

There was no such pretence yesterday. The government is putting £1.4bn on the table, only thinly disguised as cash towards improvements for domestic rail travellers. Labour claims that allowing for the transfer of the assets of European Passenger Services – the existing Channel train operator – and property associated with the deal, that figure rises to £5.7bn. The truth doubtless lies somewhere in between, making the fast link one of the biggest public infrastructure projects in history.

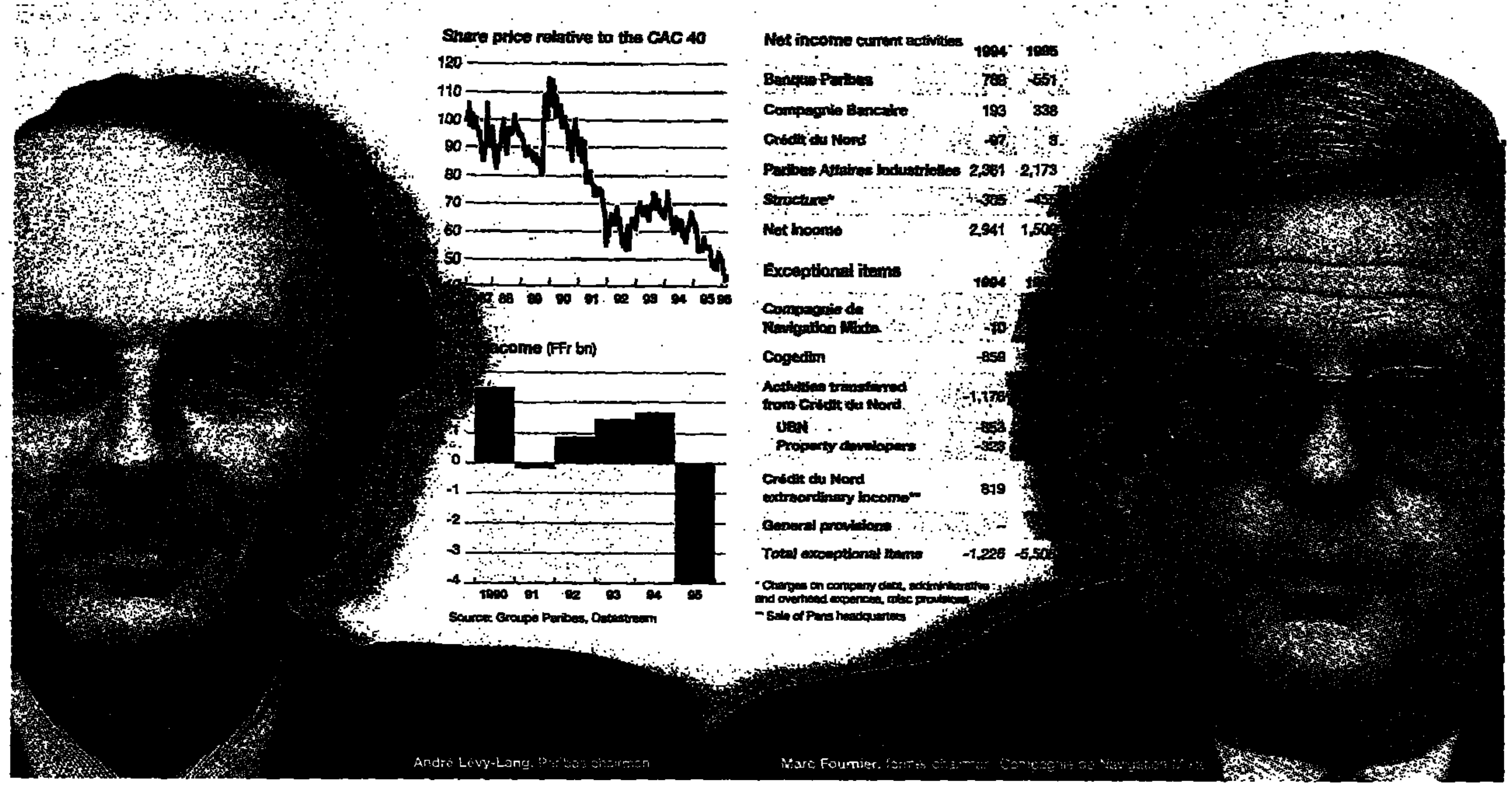
Lessons for PFI

There are lessons in this for the PFI more broadly. Other significant infrastructure projects – notably the scheme to automate Britain's 20,000 post offices – have been seriously delayed by the determination to bring them within the PFI as a matter of policy. The principles underpinning the PFI remain sound if applied properly, case by case. That must involve factoring into any public/private comparisons the cost of delay, alongside other expenses such as the higher cost of the capital involved in PFI projects. This will not always make PFI an attractive option.

Then there is the moral of this saga for national transport policy. When the fast link is completed it will be the only such dedicated line in the entire UK. It barely counts as a national project. London & Continental claimed yesterday that rail services bypassing St Pancras and extending to Glasgow, Manchester and Birmingham would be "more competitive with air travel" after 2003. At five hours from Paris to Manchester, this sounds like wishful thinking.

It is unlikely that privatisation will transform Britain's rail network to deliver the high-speed services now common on the Continent. Yet there is no other policy under consideration for doing so. Britons are set to crawl through most of their countryside by train for decades to come.

Groupe Paribas: poor record since privatisation



Trouble behind the facade

The FFr4bn losses at Paribas reflect the enormous challenges facing the entire French banking sector, says **Andrew Jack**

Just when the crisis in French banking seemed to be over the worst, the country's first important financial institution to announce its 1995 results this week issued the poorest figures in its 124-year corporate history.

Groupe Paribas, which controls a range of banking and investment businesses, reported its second ever loss: FFr4bn (\$798m) for the year, after making exceptional provisions of more than FFr5.5bn.

The losses have much to do with the group's particular problems. But they hint at the challenges facing much of the country's banking sector. They also highlight the continuing difficulties facing French-style capitalism, with its penchant for cross-shareholdings and interlocking directorships – which can cause conflicts of interest and inhibit reforms that would help the companies concerned.

From its beginnings in 1872 as the Banque de Paris et des Pays-Bas, Paribas has always been international in its activities. In the past few years, it has increasingly emphasised an "Anglo-Saxon" style commitment to corporate governance and the interests of shareholders. Yet its structure and ownership remain linked to a history which is quintessentially French.

A record 3.6m shareholders invested in the group's privatisation in 1987 – five years after it had been nationalised under former socialist President François Mitterrand in 1982. They were attracted by a marketing campaign geared to the mystique of an investment bank and symbolised in its advertisements and corporate logo by the stone doorway in the historic central Paris headquarters it has always occupied.

Nearly a decade later, they are finding that some of the assets managed behind that door are far from healthy. Apart from a brief peak at the end of 1989, the group's share price has languished below its privatisation level. Its market capitalisation stands at about half the value of its net assets. And its return on equity for 1995 was just 3.7 per cent.

The group is split into four units: Banque Paribas, the investment bank; Compagnie Bancaire, its specialist credit division; Crédit du Nord, a retail banking business; and Paribas Affaires Industrielles, a holding company of investments in a range of French and overseas companies.

Many of the problems facing the first three of these divisions are common to the whole French banking sector. Like other banks, Paribas has suffered heavily from the weak property market. The protracted decline in the residential and commercial sectors since 1990 – with a drop in prices, falling rents and lack of sales – seems only now to be reaching its nadir.

Mr André Lévy-Lang, chairman, stresses that Paribas was among the first to warn of the risks of the market in 1991. Even so, it was forced to make heavy new provisions for 1995, including FFr1.2bn for property development lending by Crédit du Nord. The group also made provisions of FFr1.9bn for Cogedim, a property developer now being restructured.

And like other French retail banks, Crédit du Nord suffered from declining revenues, down 4 per cent during the year. That was linked to France's gloomy economic prospects, which had a dampening effect on demand for loans from companies, and to a corresponding growth in competition between the banks which cut into margins.

Banque Paribas, the group's investment bank, also suffered during 1995 – like its peers. It disclosed in January that its Madrid office had generated losses of FFr250m from trading in Spanish bonds which had been concealed by those involved. More fundamentally, it suffered from a decline in the volume of activity in global markets. Losses for the year were FFr551m.

The backbone of profits at Paribas in the last few years has been its investment portfolio which holds stakes in more than 200 medium-sized companies. Last year was no exception. Those investments generated FFr2.2bn, the bulk of operating profits before provisions.

But critics say the investments have little to do with the group's modern banking activities and are more a function of its old "banque-industrie" approach which involved taking large investments in industrial companies from which it hoped to earn substantial banking fees.

While many of those investments are profitable, Paribas has also attempted to build controlling stakes which proved disastrous. The largest single provision taken by the group in 1995 was FFr2.2bn, which represented a write-down in the value of its shares in Navigation Mixte, a holding company over which it failed to gain control during a takeover bid in 1989.

"There are fashions," says Mr Lévy-Lang, who at the time was in charge of a Paribas subsidiary. "At that time, it was to acquire and grow. The idea was to keep up with Suez," he says. Suez is another large French holding company which has been coping with heavy losses incurred by a takeover spree in the late 1980s, which brought Société Générale de Belgique and Victoire under its control at considerable cost.

After its bid failed, Paribas was left with a 30 per cent stake in Navigation Mixte, which in turn held 9 per cent of Paribas. The position was frozen under an agreement between the two groups which ran until last summer, at which point Paribas launched a surprise vote of no confidence in Mr Marc Fournier, the Navigation Mixte chairman, ousting him with the help of other leading shareholders.

This week, it announced the purchase of a further 20 per cent stake in Navigation Mixte, and the launch of a takeover bid for the remaining shares. Since appointing a chairman to replace Mr Fournier, it says it has discovered that the value of the group was far less than previously stated. It has written down its shares to FFr845, compared with an average purchase price in 1989 of FFr1,500.

But Navigation Mixte was not the group's only attempt at empire-building. In 1991, it acquired majority control of Ciments Français, a cement producer, from Axa, the insurance group. It sold it the following year to the Italian group Italcimenti, which discovered a series of undisclosed acquisitions and inflated profits.

As a result, Paribas was forced to refund part of the sale price of Ciments Français. And French magistrates began to raise questions about whether Paribas did or should have known about the transactions, and have placed a number of group executives under formal examination – including Mr Lévy-Lang last December.

With Axa being a shareholder in Paribas, the Ciments Français affair raises the broader issue of the intertwined structure of Paribas shareholdings. The group remains closely linked with a number of other French groups, including Assurances Générales de France.

Mr Lévy-Lang argues that while cross-shareholdings can lead to conflicts of interest in other groups such as Suez, there is no such problem in the case of Paribas. Others are more sceptical, and say his position as chairman and the company's business strategy depend on interlocking interests between Paribas and a core of investors.

Some argue that Paribas suffers from the same criticism that it levelled at Navigation Mixte: that as a holding company it offers little added value to the divisions it controls and lacks a clear strategy. They say it lacks the size to compete against international banking groups, and predict that the group's chairman will be replaced and Paribas will be taken over or broken up.

Mr Lévy-Lang says the same criticisms have been made for at least a decade, and yet the group survives. He argues that there is a coherence to the existing structure, which he classifies under two categories: an international wholesale investment bank, incorporating equity investment activities; and a retail banking business.

He says the way forward lies in continuing to develop a range of innovative products and services in niche markets, in a process which "sometimes takes some time".

Meanwhile, aside from the latest provisioning and restructuring, he is promising to sell FFr15bn in assets over the next three years, most of which will be used to provide additional resources for Banque Paribas. He is also pledging to deliver a return on equity of 10 per cent by 1999, and 15 per cent in the medium term.

That will not be easy to deliver against the backdrop of sluggish economic recovery in France and intensifying competition between domestic retail rivals and international investment banking giants abroad. And investors, including those in France, are becoming hungrier for better returns.

Mr Lévy-Lang remains resolute. He tells the story of two dinosaurs millions of years ago walking along a beach who saw a snake coming out of the sea. They turned to each other and asked: "What is that outdated animal?"

Mr Lévy-Lang says: "I like to think that we are that snake." The only difference is that Paribas does not have an aeon to test its survival strategy.

· OBSERVER ·

Just between friends

■ Swiss financier Stephan Schmidheiny's recent purchase of SFr250m worth of Union Bank of Switzerland registered shares has intrigued the gnomes of Zurich. But they do not have to cast their minds back too far to understand why Schmidheiny might be in a particularly helpful frame of mind.

In 1989, UBS bought PBZ Privatbank Zurich, a small portfolio management bank 70 per cent owned by Schmidheiny.

Questions were raised at the time concerning PBZ's health, not to mention a possible conflict of interest with Schmidheiny being on the UBS board.

Two years later, UBS announced that due to "a deterioration in the income opportunities in the banking sector", PBZ had to be merged with another UBS subsidiary. "It was a disaster," says a source close to UBS.

Now, as the UBS board is under a proxy siege from maverick Zurich broker Martin Ebner, Schmidheiny appears to have ridden to the rescue with his recent purchase. The registered shares sell at an effective 11 per cent premium to the bearer shares, meaning that he could have got the same return for some SFr27m less by buying bearer shares.

But the registered shares have five times the voting power of the bearers and Schmidheiny has made clear he will vote his 1.1m shares, carrying a useful 2.5 per cent of the total votes, in favour of the board.

Water line

■ Is the last of the "Golden Greek" shipping tycoons about to transfer control of his fleet to his youngest son, Constantine?

Stavros Niarchos, 86, has been in a Swiss hospital for almost a month. Constantine and his brothers, Philippos and Spyros, are keeping a bedside vigil, according to a family friend.

Constantine, 34, has shed his playboy image and now puts in what the friend calls "fairly regular hours" at the Niarchos offices in London. His mentor is Malcolm Walker, who runs the group's day-to-day shipping operations.

Unlike most Greek shipowners, who take pride in having a hands-on style, Niarchos has for years preferred to delegate. This gave him time for other interests, among them breeding racehorses and putting together collections of Impressionist art and Greek antiquities.

After the death of his arch-rival Aristotle Onassis in 1975, Niarchos allowed his fleet to shrink from more than 70 ships to fewer than 30. But recently he had shown interest in acquiring more tonnage. If he gets the nod from his father, Constantine's first task will be to complete negotiations with Daewoo of Korea for a couple of new supertankers.

Unlike young Spiro Latsis, the heir-apparent of the less wealthy Latsis family, Constantine Niarchos seems intent on turning himself into a shipping tycoon.

Over and out

■ Kenya's defeat of the West Indies must be one of the biggest upsets in the history of World Cup cricket. The last time that the West Indies faced such a humiliation was in 1969 when they were all out for 26 in a match against Ireland. However, they had an excuse that time.

They had been on a works outing to the local Guinness brewery the day before.

Memory lane

■ Lionel Mee is not a household name. But back in 1966 he helped change the face of British politics.

As a raw recruit to the Standard Chartered Bank, Mee was sent to Nigeria, with five colleagues, as the Biafran war was flaring up. One of his colleagues was young John Major, who suffered a serious knee injury in a car crash in the town of Jos a few months into his assignment. Mee organised Major's evacuation back to Britain and helped stretcher him on to a VC10.

Thirty years on, the two met up again yesterday in the unlikely setting of Bangkok's Hilton hotel. Standard Chartered had thrown a party to celebrate its move into new premises in Bangkok which Mee, an operations whiz, helped organise. Since the prime minister was in town at the start of his Far East tour, he was invited along for old time's sake.

Never one to blow his own trumpet, the prime minister recalled his 13 years with the bank, and his hair-raising first few months. "They called for volunteers for Nigeria," he said, "and as they were looking for the most expendable members of staff they chose me."

Mee, who has retired from the bank but still works for them as a consultant, has tracked Major's progress throughout, writing him letters on each promotion within the cabinet. If only Tory MPs were that loyal.

Old Standard Chartered hands still talk fondly of Major. Who knows, if the prime minister were ever to quit politics he could end up as chairman of Standard Chartered. But knowing his luck it will probably be taken over before he has the chance.

Purple reign

■ For her post-divorce title, Diana could always follow the example of the singer from Minneapolis and become "the aristocrat formerly known as Princess".

The Financial Times

50 years ago

Rand taxes reduced
Abolition of the special 22½ per cent Special Levy on gold-mining profits and the removal of the 15 per cent basic tax were recommended by Mr. Hofmeyr, Union of South Africa Finance Minister, in his Budget introduced yesterday. In their place, he proposes to substitute an increased tax formula, which will show a higher yield and encourage low-grade mining. Benefit of the tax reductions, which include the abolition of native pass fees and claim licenses, amounts to about £3,000,000 per annum. Mr Hofmeyr said that as a state the Union had "ceased to be a foreign borrower."

Coal supplies
Holders of shipping shares should bear in mind that the present shortage and high price of coal hit owners hard and in two places. Any owner of a coal-burning ship feels just now that he is in a vulnerable position, and the owner of a tramp ship looks with anxiety to the bleak prospects of obtaining outward coal cargoes. It will be a serious matter for the shipowner and the country if the United States or Poland are able to consolidate sales in overseas markets while the U.K. coal industry is experimenting with nationalisation to the grave detriment of output.

FINANCIAL TIMES
Friday March 1 1996

IRA ceasefire response is sick joke, says Major

By Robert Peston in London and John Kampfner in Bangkok

Mr John Major, UK prime minister, last night described as a "sick joke" a statement from the IRA indicating it was not ready to renew its ceasefire in response to Wednesday's Anglo-Irish initiative to rebuild the Northern Ireland peace process.

After a day of confused speculation about the IRA's plans, Mr Major reacted furiously to an equivocal statement from the paramilitary group's ruling army council, in part to reassure pro-unionist Tory backbenchers that he had not softened his commitment to forcing the paramilitaries to give up their arms.

In its statement, the IRA said the British government had been responsible for the renewal of its terrorist campaign by failing to put in place "inclusive negotiations free from preconditions".

The army council statement was "nonsense" and a "pathetic response to the hopes and dreams of the people of Northern Ireland", Mr Major said in a BBC interview.

Speaking in the early hours of the morning in Bangkok, where he is attending a European Union meeting with south-east Asian nations, he said "most people would be fed up to the back teeth with comments of this sort that we get so repeatedly from the IRA".

Earlier he had warned that in the absence of tangible proof of the terrorist group's conversion to non-violent action, the "democratic process" of finding a political settlement would not "stop and wait" for Sinn Féin, the IRA's political wing.

Mr Major said Sinn Fein had "the opportunity to join" all party political talks "if they restore the ceasefire, begin to talk" and "meet the six principles" set down in US Senator George Mitchell's report into how paramilitary groups should decommission weapons.

"I am blasé these days not quite so impressed by words", he said. "I am impressed more by actions."

Labour and the Liberal Democrats have praised Mr Major for attempting to restart the peace process on Wednesday with the announcement – in a communiqué issued with the Irish premier, Mr John Bruton – of a firm June 10 date for all-party talks on a Northern Ireland political settlement.

Following the release of the communiqué, the Sinn Féin president, Mr Gerry Adams, and the leader of the moderate nationalist Social Democratic and Labour Party, Mr John Hume, held talks with the IRA's ruling army council.

"The IRA left quite clear that Mr Hume and I wanted to see an end to all armed actions", Mr Adams said yesterday.

In its statement, the IRA's army council said that it responded to the approach from Mr Hume and Mr Adams by restating its "absolute commitment to our republican objectives which include the free exercise by the Irish people of our inalienable right to national self determination".

The IRA did not however rule out an eventual ceasefire. It was "prepared to face up" to its responsibilities, so long as "others ... do likewise".

Brittan will ask China to lift news restrictions

By Peter Montagnon and Ted Bardacke in Bangkok

Sir Leon Brittan, European trade commissioner, will today tell China that its recent decision to restrict circulation of financial information in its domestic market is a setback in its efforts to join the World Trade Organisation.

China announced in January that information supplied to financial markets by news agencies such as Reuters and Bloomberg would have to be passed through its own Xinhua agency.

The announcement sparked worries about efforts by China to censor financial news which could even extend to Hong Kong after 1997.

But although China is known to be concerned that information flows can aggravate volatility in its fledgling financial markets, industry executives said it appeared more likely that Xinhua was seeking a financial cut in a market with considerable growth prospects.

Yesterday Sir Leon said China's move was inconsistent with international trade rules and would not be acceptable if it were a member of the WTO. He said he would convey this to Mr Qian Qichen, China's foreign minister, at a meeting in Bangkok today.

His comments came after the question of China's membership of the WTO had already surfaced at the Europe-Asia summit.

The meeting is expected to endorse the idea in broad terms, amid worries expressed by some Japanese officials that US demands on China are discouraging it from actively pursuing membership.

Mr Li Peng, China's prime minister, yesterday told Mr Jacques Santer, European Commission president, that Europe had not done enough to support China's membership.

But Sir Leon said Europe strongly favoured Chinese membership on appropriate terms and was prepared to express this support independently from others, such as the US, if the conditions were right. China would have to take some liberalising measures immediately and could phase others in over time, because it was a country in transition, he said. But it had not yet done so.

Nonetheless, he said the involvement of China in this week's summit was an important part of the process of engaging it in the international community.

Separately, Sir Leon said Japan appeared to have taken note of EU concerns that the pace of economic deregulation had slowed under the government of Mr Ryutaro Hashimoto.

Tokyo had since taken action to bring its copyright provisions into line with international agreements, a move which Sir Leon described as "a step in the right direction."

THE LEX COLUMN

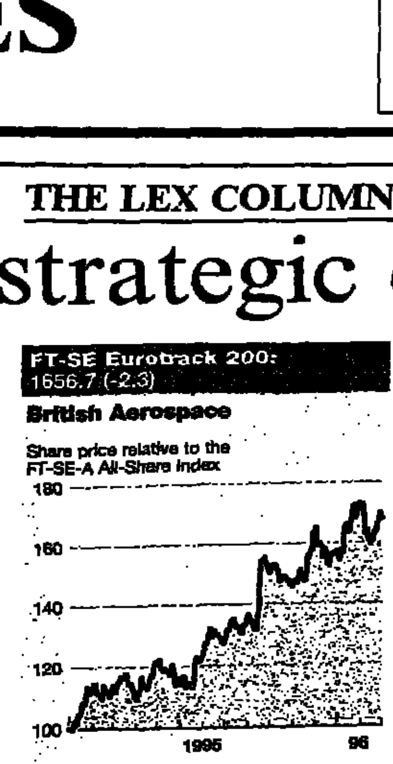
BAe's strategic defence

The most important number in British Aerospace's results published yesterday was the revelation that its tax charge for the next five to 10 years will be 27 per cent rather than the standard 33 per cent. This is because BAe is sitting on deferred tax assets of £541m ($833m), stemming from previous large losses. As a result, earnings will be about 9 per cent higher than expected in future years. Given that this news came out of the blue, it is astonishing that BAe's share price barely rose.

The other piece of good news is that BAe is apparently pursuing alliances in the European defence/aerospace industry with its head firmly on its shoulders. Restructuring Europe's industry on transnational lines is essential if it is to enjoy anything like the economies of scale the newly-rationalised US defence industry is likely to obtain. The snag is that insufficient scale is only one of the problems European aerospace groups face; their other problem, BAe excepted, is inefficiency.

The risk might have been that, in its eagerness to cut deals, BAe might engage in mergers either without insisting on its partners improving efficiency or by helping to pay for partners' cost reductions. Yesterday, it went out of its way to say that it will not. Such a hard line may complicate negotiations with the likes of Daimler-Benz Aerospace and Aérospatiale, both of which are bleeding red ink. But it offers BAe shareholders some assurance that, if deals are done, they will benefit.

FT-SE Eurotrack 200: 1656.7 (-2.3)



Source: FT Extel

Dual shareholdings

ABB's move to restructure its board should simplify decision-making and strengthen links with its shareholders. Like most cross-border combinations the Swiss-Swedish engineering group was set up with a dual shareholding structure at the time of its 1988 merger. That may have been necessary to minimise tax problems and satisfy national pride, but it is clearly not ideal. Separate holding companies in different countries can make the group cumbersome to run, often leading to compromise when decisive action is needed. Unilever and Shell, which both have dual shareholding structures, have lately lost ground to rivals.

Under the new structure, shareholders in Sweden's Asea and Switzerland's Brown Boveri will each approve four directors, who will sit on the ABB board which controls the business. ABB will also take over the two holding companies' remaining non-core operations and assume responsibility for distributing dividends.

This is still second best to a proper company with a unified shareholding - a goal ABB is working towards, though there are still tricky legal and tax problems. Meanwhile, this more streamlined structure is a useful transitional step. It solidifies the merger and should make the group more attractive to investors. It may also serve as a blueprint for restructuring sensitive sectors like the European defence industry, where shareholders' interests have traditionally lost out to national sensibilities.

European airlines

Despite a buoyant climate for airlines worldwide, too many in Europe continue to report losses. Can they ever be shaken into shape?

Optimists argue that pressures for reform are slowly delivering results. Lufthansa's turnaround has certainly shown that it can be done. Meanwhile the European Commission is trying to attach tougher conditions to government bail-outs. And the Belgian government has proved surprisingly willing to step back from Sabena's chronic problems; this week it unexpectedly allowed Swissair, which has a 49 per cent stake, to parachute in a Swiss chief executive.

But the Sabena episode can be interpreted another way; the old chief executive had to go because his hard line caused too much trouble with the company's unions. Similarly, Alitalia's new chief executive seems conspicuously welcome to the unions. Neither appointment bodes well for cutting labour costs – the central problem for Europe's basket-case airlines.

Moreover, for all the conditions he attached, the decision by Mr Neil Kinnock, European transport commissioner, to allow another slug of state aid to Spain's Iberia makes a nonsense of Commission attempts to make each subsidy the last. This greatly reduces the pressures on underperforming national carriers to take tough decisions.

Low-cost competitors oppose subsidies because they distort the playing-field. But in practice, they are unlikely to be enough to prevent high-cost businesses from losing market share. With the European market being opened up to full competition next year, some low-cost operations must be rubbing their hands in anticipation.

Channel rail link

By awarding the contract for the channel rail link to London & Continental, the British government has done potential investors a favour. Unlike its rival, Eurorail, the L&C consortium does not include construction companies; without them, it should be able to drive a tougher deal with the contractors that will build the line. Moreover there is some chance that Virgin's marketing skills will help turn around Eurostar, the existing line which was supposed to be a juicy dowry for the winning bidder but is, in fact, heavily loss-making.

But L&C, and particularly SBC Warburg which has boldly taken an 18 per cent stake in the venture, should not crack open the champagne yet. The real challenge – persuading investors to stump up billions to build the new line – is still ahead. This is likely to prove very tricky. After Eurotunnel, investors will inevitably take an extremely pessimistic view of the new line's construction costs. And arguably even bigger worries surround future revenues. As Eurostar's painful experience shows, projecting future travel demand – in this case well past the turn of the century – is not much easier than predicting the weather. As recently as two years ago, Eurostar was expected to carry 8m passengers this year. It is actually carrying 3m.

It is perfectly possible to make money by buying rail shares – even Eurotunnel outperformed strongly early on. But train spotters in search of a bargain would do better to go for Railtrack instead.

Daiwa plea

Continued from Page 1

price rose, reflecting relief the fine had not been as high as had been feared. But the damage to Daiwa's reputation from the successful prosecution makes it highly unlikely the bank will be able to survive alone.

Daiwa has refused to rule out the possibility of a merger with another bank, most notably Sumitomo, one of the country's largest lenders. Last month, Sumitomo acquired most of Daiwa's remaining assets in the US and relations between the two remain strong.

Mr Kaiho said there were no plans for an early tie-up between the two banks.

Last November, Daiwa was expelled from the US by American regulators after discovery of the losses cover-up. The Japanese authorities then ordered a substantial scaling down of the bank's global operations.

But the finance ministry may find a full investigation of the plea bargain uncomfortable. Daiwa's lawyer in New York said the bank had decided not to release details of the losses soon after it discovered them last summer, partly because of consultations with the finance ministry itself.

Daiwa says it discovered the losses in late July last year. On August 8 it reported the problems to the ministry. A senior banking supervisory official told Daiwa the problem had come at a difficult time for Japan's financial system, then beset by a string of smaller banking collapses.

Since the scale and details of the Daiwa loss were uncertain, the official said, the immediate release of information about it could increase the crisis. Daiwa was told it would be better to achieve further clarification of the loss before revealing it.

Beijing wants Dasa to join jet project

By Michael Skapinker, Aerospace Correspondent, in London

China has told the French, British and Italian companies which have entered the contest to help build a 100-seat Asian jet that they have no chance of winning unless they include Germany in the project.

Companies from the three countries had excluded Daimler-Benz Aerospace of Germany from their bid and from a regional aircraft group they set up because of uncertainty over Fokker, the crisis-hit Dutch company Dasa controls.

Their decision caused considerable bitterness in Germany.

Dasa's exclusion from the project was a rare instance of disagreement between France and Germany, which have worked together for decades to build Europe's aerospace industry.

The Chinese insist that a European country of Germany's importance must be included in the project.

If Germany is now included in the Asian jet bid, the project is likely to be run in co-operation with Airbus Industrie, the European manufacturing consortium.

China and South Korea have invited bids from several western companies to help them build the jet. Aérospatiale of France, British Aerospace and Alenia of Italy have submitted a bid through Aero International Regional (Air), the joint aircraft company they established this year.

Boeing of the US is another contender to be the Asians' partner.

Dasa submitted a separate bid offering to use Fokker to help build the jet.

The German bid was thrown into doubt, however, when Daimler-Benz, Dasa's parent, recently refused further financial assistance to Fokker, forcing the Dutch company to seek protection from its creditors.

China and Korea have since quarrelled about where final assembly of the jet should take place, leading some in the industry to conclude they could go their separate ways.

China, however, appears determined to continue with the project.

Aerospace executives say that the Chinese have seen the collapse of Fokker as an opportunity to insist the Europeans work together. Dasa and the Air partners submitted separate bids because the Germans insisted that some of the final assembly of the jet should take place in Europe to provide Fokker with work.

The Air partners thought it was unrealistic to expect the Chinese and Koreans to agree to this.

Now that Fokker has collapsed, Dasa is no longer under pressure to find work for it.

Dasa has pressed for Airbus to be involved in the 100-seat project. Dasa, BAe and Aérospatiale are shareholders in Airbus, but Alenia is not. However, the Airbus shareholders have said they would like to involve other companies in specific projects, without making them partners in the overall Airbus structure.

Fokker attracts attention of China, Page 23

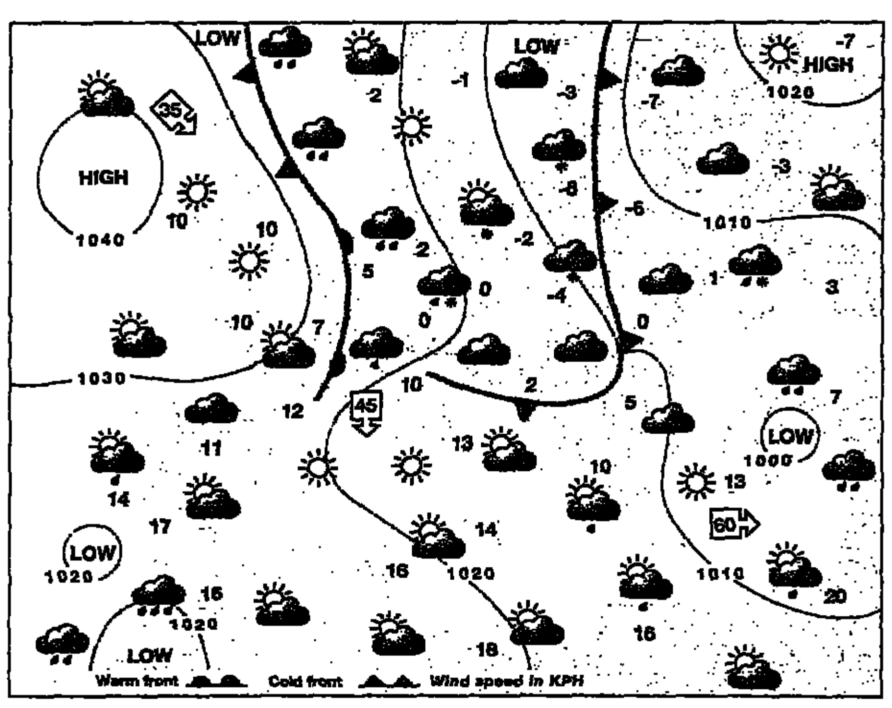
FT WEATHER GUIDE

Europe today

Sunny conditions will prevail in southern Scandinavia. Cloudy conditions with patches of light snow will linger over north-west Russia across Belarus towards Hungary. Most of Russia will stay dry and Moscow will have sunny spells. The Balkans will be cold and mainly dry with sunny spells. An active low pressure system will bring widespread rain to Turkey and the south-west will have strong north-westerly winds. Other parts of the Mediterranean will be dry with sunny spells. The Benelux and northern France will be overcast. The Riviera and the Po valley will be sunny. High pressure will result in fair conditions over the British Isles.

Five-day forecast

Eastern Europe will remain cold. After the weekend, western Europe will be unseasonably cold although it will remain dry and sunny. The southern Mediterranean will have rain. Dry and sunny conditions will prevail over the interior of the Iberian peninsula. Fair and dry conditions will persist over the British Isles.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	30
Accra	fair	33
Algiers	fair	15
Amsterdam	drzzl	6
Athens	fair	10
Atlanta	rain	5
B. Aires	fair	24
B.ham	fair	11
Bangkok	fair	35
Barcelona	sun	14
Beijing	sun	9
Belfast	fair	9
Belgrade	cloudy	4
Berlin	snow	2
Bermuda	fair	21
Bogota	cloudy	19
Bombay	sun	31
Brussels	drzzl	8
Budapest	cloudy	2
C.hagen	fair	2
Cairo	fair	21
Cape Town	fair	30
Caracas	cloudy	30
Cardiff	sun	10
Casablanca	shower	17
Chicago	cloudy	0
Cologne	cloudy	4
Dakar	fair	24
Dallas	cloudy	6
Delhi	sun	27
Dubai	fair	28
Dublin	sun	9
Dubrovnik	sun	10
Edinburgh	cloudy	11
Faro	fair	15
Frankfurt	drzzl	7
Geneva	cloudy	7
Gibraltar	rain	15
Glasgow	cloudy	11
Hamburg	cloudy	3
Helsinki	cloudy	-3
Hong Kong	fair	16
Honolulu	shower	26
Istanbul	shower	5
Jakarta	rain	30
Jersey	fair	9
Karachi	sun	30
Kuwait	sun	23
L. Angeles	fair	18
Las Palmas	fair	20
Lima	fair	26
Lisbon	fair	15
London	fair	11
Lux.bourg	drzzl	3
Lyon	drzzl	5
Madeira	fair	18
Madrid	fair	13
Majorca	fair	16
Malta	fair	15
Manchester	fair	10
Manila	fair	31
Melbourne	cloudy	16
Mexico City	cloudy	26
Miami	fair	28
Milan	sun	13
Montreal	cloudy	-5
Moscow	fair	-6
Munich	snow	0
Nairobi	fair	28
Naples	fair	12
Nassau	fair	26
New York	fair	2
Nice	sun	13
Nicosia	thund	15
Oslo	sun	4
Paris	cloudy	7
Perth	sun	36
Prague	snow	2
Rangoon	fair	32
Reykjavik	cloudy	8
Rio	fair	30
Rome	sun	12
S. Frsco	fair	15
Seoul	fair	3
Singapore	shower	31
Stockholm	fair	0
Strasbourg	cloudy	5
Sydney	cloudy	25
Tangier	shower	16
Tel Aviv	fair	19
Tokyo	fair	13
Toronto	fair	-2
Vancouver	fair	9
Venice	sun	10
Vienna	fair	3
Warsaw	snow	-2
Washington	fair	4
Wellington	fair	21
Winnipeg	cloudy	-9
Zurich	shower	5

FINANCIAL TIMES
COMPANIES & MARKETS
Friday March 1 1996

IN BRIEF

AlliedSignal sells brake arm to Bosch

Bosch Group, the German industrial group, yesterday moved to strengthen its position in the brake business with the purchase for $1.5bn (£970m) of the light vehicle braking operations of AlliedSignal, *writes Richard Waters in New York.* The agreement, which follows several months of discussions between the two over a joint venture, will bring together AlliedSignal's conventional braking products with Bosch's antilock brake system operations, a field where the German company claims a 25 per cent market share. The AlliedSignal unit generated about $1bn of its $2.1bn in revenues last year in Europe, with most of the rest coming from the US. The US group said it would reinvest the money in other, higher-margin businesses.

ABN Amro lifts profitability targets

ABN Amro, the Dutch bank, has raised its internal profitability targets after delivering a 14.4 per cent increase in net profits last year to Fl 2.62bn ($1.6bn). Mr Jan Kalff (left), ABN Amro's chairman, said that the group would now aim to produce at least 7.5 per cent annual growth in earnings per share, compared with an earlier target of 6 per cent. Page 22

Nokia falls from pole position

Two profits warnings in three months and a 50 per cent collapse in its share price since September suggest the golden days are over at Nokia, the Finnish telecoms group, after a three-year run as one of the world's leading high technology stocks. Page 23

US stores struggle on weak demand

Although most big US retailers put on enviable increases in quarterly revenues to January, customers proved so reluctant to shop that retailers slashed prices to keep goods moving. The result: higher sales but serious damage to gross margins. Page 24

Hongkong and Shanghai Hotels ahead

Hongkong and Shanghai Hotels, the hotels and property company, reported a 27 per cent rise in net profits for calendar 1995, from HK$512m in 1994 to HK$652m ($84.3m), comfortably meeting market expectations. Page 25

SmithKline Beecham shuts sites

SmithKline Beecham, the Anglo-US pharmaceuticals company, is to shut or sell more than 10 per cent of its manufacturing sites in a restructuring triggered by acquisitions in 1994. Page 26

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Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Aachen Mch Rg	980	+	15
Beiersdorf	1166	+	38
Heidelb Zem	985	+	10
Falls			
Ind Werke	253.5	–	14.5
Linde	883	–	10.5
Zanders Fein	132	–	8
NEW YORK ($)			
Rises			
Ann Taylor Hld	17	+	2⅛
Diana Corp	21½	+	2
Revlon	28¼	+	4¼
Falls			
LSI Logic	28	–	8⅝
Micron	31⅞	–	2⅛
SGS Thomson	36½	–	2⅛
LONDON (Pence)			
Rises			
Caffyns	280	+	15
LIMS	155	+	12
Serco	446	+	16
Sherwood Comptr	218	+	32
Stnly Leisure	435	+	16
Falls			
Burmah Castrol	1051	–	39
TORONTO (C$)			
Rises			
Aber Resources	16⅛	+	2½
Asia Pac Res	10	+	⅝
Electrohome	11	+	1
Falls			
Blue Range	12¼	–	⅜
Crestbrook	15⅝	–	⅜
St Laurent Pap	17⅞	–	1⅜
PARIS (FFr)			
Rises			
Ecco	1028	+	45
Selimeg	388	+	13
Falls			
Air Liquide	892	–	10
Banc Comp	536	–	10
Canal Plus	899	–	22
Legrand	904	–	21
TOKYO (Yen)			
Rises			
Asics Corp	332	+	18
Daikaru Inc	723	+	24
Green Cross	575	+	25
Konica	728	+	27
Nihon Cement	700	+	31
Falls			
Ikegami Tsush	711	–	28
HONG KONG (HK$)			
Rises			
Giordano Intl	8.25	+	0.3
Intl Bnk Asia	5.5	+	0.2
Swank Intl Mfg	1.36	+	0.11
Falls			
Harbour Centre	9.7	–	0.45
Lucky Man Prop	8.3	–	0.4
Wharf Hldgs	29.95	–	0.95

Bangkok closed. New York and Toronto prices at 12.30pm.

Investors welcome BP/Mobil deal

By Deborah Hargreaves

Shares in British Petroleum neared record highs yesterday following confirmation that it was to combine its downstream fuels and lubricants businesses in Europe with Mobil.

The partnership will create the second largest oil marketer in Europe with a 12 *per cent market share and sales of $20bn a* year. Investors welcomed the deal as a way of improving the companies' competitive position in a cut-throat market and marked the shares up 10¼ to 539½p – just below a high of 555p reached in January. Mobil shares rose $2⅜ to $110⅞ in early trade.

However, other large oil companies including Shell and Burmah Castrol saw their shares slip because the City believes the deal will put pressure on them to rationalise their downstream operations.

Sir David Simon, BP chairman, said yesterday the deal would bring significant cost savings to the two as well as a platform for growth, particularly in central and eastern Europe.

Cost savings of $400m to $500m a year are expected within three years. The two will share a restructuring cost of $400m.

BP will take a 70 per cent stake in the fuels side and will manage the operations, which include 8,900 service stations. Mobil will have a 51 per cent share of the lubricants business and will run that including the blending plants.

Mr Fergus McLeod, oil analyst at NatWest Securities, believes the deal could boost BP's earnings by about 5 per cent, or by between $170m and $230m a year, of the total, after a charge of $200m.

It *would mean an additional $90m to* $110m for Mobil's bottom line. Mr Lou Noto, chairman of Mobil, said the decision to form the partnership was not based "on despair or desperation, but on opportunity". This is in spite of persistently poor returns in European refining operations and fierce price competition on petrol retailing in the UK, France and Germany.

Mr Noto said the partnership would pursue cost savings and efficiencies in Europe. "In Europe we want to stay and thrive, not just survive," he said.

Sir David said the decision to form the partnership had been made in mid-Atlantic: "We were both flying across the Atlantic many times thinking about how to make our businesses more competitive *and at one point in mid-Atlantic we both* thought 'Good golly, why not form a partnership?'"

But he said there were no plans to extend the partnership into other areas or outside Europe.

The two companies' European businesses make a good fit geographically and Sir David said both operators had a similar management philosophy. "We both offer a great deal of flexibility to our teams to implement performance," he said.

Background, Page 26

Escom to seek more funds for expansion

By Paul Taylor

Escom, the German personal computer manufacturer and retailer, will announce today that it is seeking additional funding for its ambitious European expansion programme.

Shares in the group, which acquired more than 200 Rumbelows stores in the UK last year, were suspended *yesterday* pending today's announcement.

Escom, which is majority owned by its founder Mr Manfred Schmitt, has grown rapidly to become one of the largest PC manufacturers in Europe.

Siemens Nixdorf, part of the German electronics group, also has a 10 per cent stake in Escom.

In December it became the latest PC vendor to warn of losses in the normally buoyant fourth quarter when it blamed an expected DM45m (£20.2m) loss in the quarter on weak sales and costs of international expansion.

It has grown rapidly through a combination of aggressive pricing and an international expansion.

It has acknowledged that the costs of expanding its retail network, particularly in the UK, were a factor in its weak results.

Nevertheless it has insisted the new UK outlets would make a "considerable contribution *to* profits" in 1996.

Fierce price competition and the battle for market share in the consumer personal computer market has resulted in a number of PC manufacturers reporting disappointing 1995 figures.

Although a record 65m PCs were sold worldwide this year fourth-quarter sales failed to *match up to some companies'* over-optimistic forecasts.

The PC price war has put margins under intense pressure, plunged a number of previously profitable companies into loss and prompted renewed speculation about an industry shake-out.

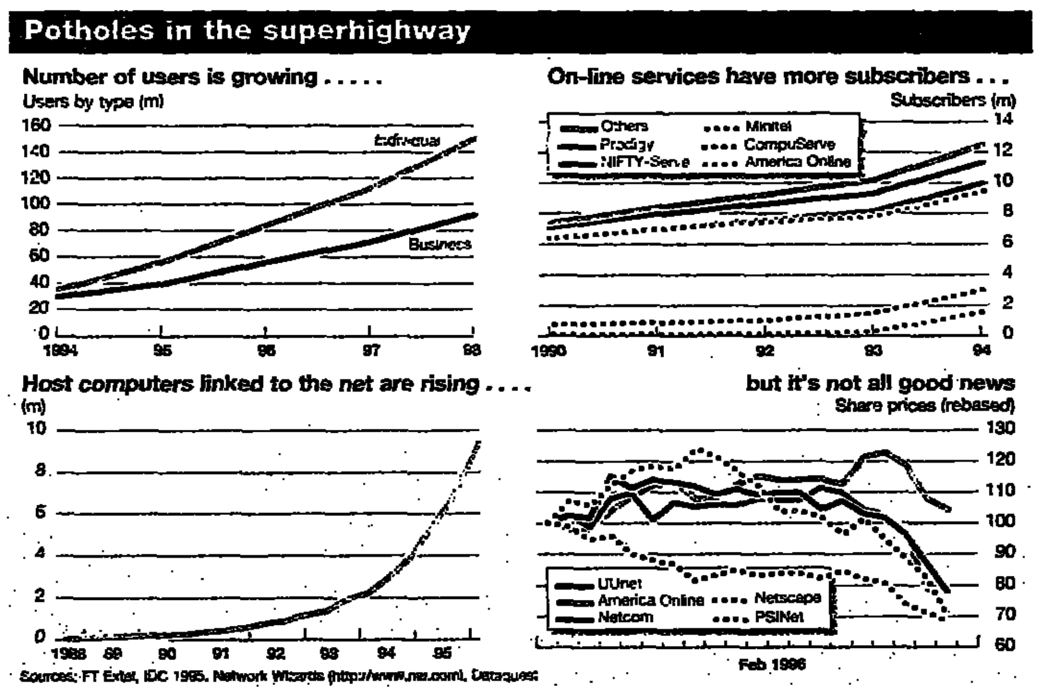
In Europe, the market outside Germany is dominated by US *vendors and few indigenous* PC manufacturers are making money. Olivetti, the Italian information technology group, has warned that its troubled PC business would be closed unless it achieved break-even by the end of this year.

Recent Dataquest shows that Escom's market share of units sold in the fourth quarter fell from 4 per cent in 1994 to 3.2 per cent last year and it ranked as Europe's 10th largest PC seller, down from sixth a year earlier.

Online industry's explosive growth prompts US telecoms group's free access offer

AT&T's big guns reverberate across cyberspace

Potholes in the superhighway



Sources: FT Extel, IDC 1995, Network Wizards (http://www.nw.com), Dataquest

AT&T has sent a shock wave through the computer online services industry with its launch of a US-wide Internet access service, offered free for the first 12 months to residential telephone customers.

The entry of the US's largest telephone company into the Internet arena is the latest in a rapid-fire series of changes reshaping the online services industry, which provides computer users with information and communications facilities. Shares in the industry reacted dismally to the news. Netcom Online Communications, UUnet, America Online and PSInet were marked down.

The launch of AT&T WorldNet, as the service is called, marks the *beginning of a new round of competition* in the Internet access market, analysts said. It comes on the heels of Sears' decision to sell its 50 per cent stake in Prodigy, the world's third largest computer online information service, and of H&R Block's announcement that it plans to spin off CompuServe, number two in the online industry, as an indepen*dent public company.*

Underlying these changes is the explosive growth of the global Internet. At the last count, in January, there were at least 9.5m "host" computers and networks linked to the Internet, a 95 per cent increase over the previous 12 months.

A "host" computer or network is one that has its own address *on the Internet, such as www.ft.com.* While some hosts are single-user personal computers, many are networks serving hundreds of users. Excluded from the *"host count", which is pro*duced by Network Wizards, a California computer services company, are many computers that *are hidden from public access* behind security firewalls.

It is "anybody's guess" how many people are now using the Internet, says Mr Mark Lotter, who owns and operates Network Wizards. However, the most con*servative estimates put the num*ber of users at about 35m.

Whatever the real numbers, they are big enough to attract the *attention of the world's largest* telecoms companies. Internet access is becoming the "multimedia dial tone of the 1990s", a basic service that will become as commonplace as the telephone, says Mr David Hood, AT&T vice-presi*dent of marketing.*

AT&T will offer its 80m residential telephone customers up to five hours of free Internet access for the first 12 months and unlimited access at the competitive rate of $19.95 a month thereafter. Rates are higher for those people not signed up for AT&T's long-distance telephone services. AT&T's action is expected to *spur its US telecommunications* rivals MCI and Sprint to expand their Internet services and drop prices. US regional telephone companies including Pacific Bell, the west coast telephone company, are also expected to enter the fray. And Tele-Communications, the largest US cable television company, is planning to launch its Internet service next month.

For the specialist Internet access companies which have, until now, dominated the market for consumer access to the Internet, the entry of the "big guns" of the communications industry *poses a serious threat, according* to industry analysts. They predict a price war.

The future of proprietary online information services such as America Online, CompuServe and Prodigy has also been thrown into question.

Just a year ago, it was possible to draw clear distinctions between the Internet – an unregulated, chaotic but exciting new world of online information resources – and the more structured environment of these proprietary consumer-oriented online businesses.

The lines have become blurred, however, as the online service providers have moved to offer links to the Internet, or "gateways," while many Internet access companies are now providing their subscribers with "navigational tools" and exclusive information resources.

Until just a few months ago, the online services seemed to *have the upper hand. AT&T was* forging partnerships with publishers such as the Washington Post and planning its own content for Interchange, an online service it acquired from Ziff Davis, the US publishing group, for $50m. Interchange is being phased out in favour of the direct Internet access service. Microsoft, the world's largest software *company, has realigned its Micro*soft Network online service, introduced last August, as an adjunct to the Internet.

There is, however, a growing market for "non-Internet" online services.

Over the past three months America Online, the leading service, has added 1m subscribers, bringing the total to more than 5m.

The leading online services will continue to thrive, many analysts believe, because they offer unique services and provide a "sense of community" that is lacking on the Internet. America *Online, for example, offers live* "chat rooms" where subscribers can exchange messages with other users. These are a big attraction for many subscribers. Similarly, CompuServe is known for its "forums" or online discussion groups.

Moreover, with their established subscriber lists the online services may be able to attract *more advertising, which is expec*ted to become the primary source of revenues for online and Internet services as subscriber rates fall under competitive pressures.

While AT&T may be able to win over subscribers quickly with its offer of free Internet access, the company has yet to demonstrate how it can make a profit on Internet access services, say competitors.

Louise Kehoe

Network notes, Page 24

German watchdog to examine Gildemeister share movements

By Wolfgang Münchau
in Frankfurt

Germany's insider dealing watchdog said yesterday it would look into share movements at Gildemeister, the German machine tools maker, whose shares plunged 29 per cent on Wednesday.

Gildemeister warned on Tuesday it would not report a profit for 1995 as it had forecast. Throughout the day rumours had swept the Frankfurt and Düsseldorf stock exchanges that a *machine tool maker* would make a negative statement.

Its shares have been subject to gyrations for over a week. From DM157 on *Thursday*, they dropped sharply on Tuesday, recovering later. The Wednesday after the announcement the *shares dropped to* DM102.50, recovering again yesterday.

The Federal Supervisory Office for Securities Trading said yesterday: "We are definitely going to look into this, although we are not going to drop everything else and give special priority to this case." He said the agency was curious about the manner in which the news was announced.

The company issued a press release, apparently to spread the news as fast as possible. German law requires a company to announce market-sensitive news to the stock exchange and the securities watchdog before the public is told.

Apart from the *wild* fluctuations in the Gildemeister share price, suspicion has also been aroused by unusually high trading volumes. With normal trading volumes running at around 10,000 to 20,000 a day, dealing in Gildemeister shares became frenetic between *Friday* and Wednesday, with trading volumes rising to about five times average levels.

Even though Germany operates tough insider dealing laws, the fight against insider dealing is in its infancy. In a year of operation, the watchdog has collected evidence to support a small number of cases.

Suspicious share movements ahead of sensitive announcements remain common in German markets, and reaffirm a prej*udice among foreign investors* that outsiders tend to lose out in German share transactions.

BAe chief unveils profits rise and denies plan to raise Airbus stake

By Bernard Gray,
Defence Correspondent

Mr Dick Evans, British Aerospace's chief executive, yesterday denied that the company was interested in lifting its shareholding in Airbus Industrie, the European consortium, beyond its present 20 per cent as he unveiled a sharp profits rise.

Damping down speculation that the Airbus partners might *be about to spend up to* $10bn developing an Airbus 3XX very large commercial airliner, Mr Evans added that proceeding with the 3XX would be dependent on attracting capital at low rates. That could mean govern*ment loans or cash injections* from new partners, he said.

Mr Evans suggested that changing the status of Airbus from a loose federation into a single company could be one way to stimulate rationalisation in the European aerospace industry.

BAe announced that profits before exceptional items were £330m ($508.2m) *for the* year, a rise of 95 per cent on the 1994 figure of £169m. The strong profits recovery came despite a fall in sales from £7.2bn to £5.7bn.

Most of the turnover fall came because Rover, the company's *former subsidiary, sold to* BMW of Germany, had been included for 3 months of 1994. There was also a fall in defence sales of £320m to £4.3bn as a result of lower deliveries of Hawk light fighter aircraft. Despite this the *division's operating profits* reached £487m (£412m), reflecting cost-cutting.

Losses in the commercial aircraft division were cut to £118m (£156m) despite an increased sale of RJ regional jets for lower priced *cash deals. Interest* charges fell sharply from £99m to £24m as the impact of the sale of Rover and the proceeds of the 1994 rights issue fed through. Operating cash inflow increased to £155m (£88m) and net cash increased to £203m (83m) at the year end.

BAe confirmed that the sale of 25 per cent of its stake in Orange, the UK mobile telephones company, was likely to produce cash receipts of £155m to £180m on flotation this month and its remaining stake would be worth between £530m and £570m.

BAe's earnings excluding exceptional items were 48.8p (22.6p), and its dividend for the year was increased to 12.5p (10p).

Olivetti unit cuts stake in Acorn of the UK

By John Simkins in Milan and Paul Taylor and Richard Gourlay in London

Olivetti Telemedia, part of the Italian information technology group, has reduced its majority stake in Britain's Acorn computer group by selling a 10.5 per cent stake to a US institutional fund.

Olivetti said it had sold 9.5m of its 53m shares in Acorn to Chancellor Capital Management, reducing its stake in the Cambridge-based group to 54.4 per cent.

The move, apparently instigated at the request of the US fund, was welcomed by Acorn which said it represented "a vote of confidence" in its strategy and technology.

Earlier this week Acorn blamed fierce competition in its core education market, plus exceptional costs for a £12.3m ($18.9m) full-year loss which Mr Elserino Piol, chairman, called "very disappointing".

However, Acorn's outlook has brightened since the group announced a joint venture with Apple Computer in the UK education market and a contract from Oracle, the US database vendor, to develop chips to power so-called network computers.

Last year Olivetti cut its stake in Acorn from 79 per cent.

The disposal comes amid intense pressure on the companies of Italian businessman Mr Carlo De Benedetti, whose main industrial holding company Cir has L700bn ($450m) debts.

Separately, Olivetti sold its subsidiary Zincocelere, which makes multi-layer printed circuit boards, to the management for an undisclosed price.

NatWest Ventures, which led the deal from its newly formed Italian subsidiary, with CVC Capital Partners, said the deal involved raising L127bn, including funding for working capital and future expansion.

ABN Amro raises aim after solid advance

By George Graham, Banking Correspondent

ABN Amro, the Dutch bank, has raised its internal profitability targets after delivering a 14.4 per cent increase in net profits last year to Fl 2.62bn ($1.6bn).

Mr Jan Kalff, chairman, said the group would now aim to produce at least 7.5 per cent annual growth in earnings per share, compared with an earlier target of 6 per cent. The target for return on equity will be lifted from 12 per cent to 13 per cent.

Mr Kalff said both were conservative targets which the group had exceeded in recent years. He acknowledged that these returns were still lower than those earned by some UK and US banks, but doubted whether US banks could consistently produce such high returns.

ABN Amro, formed in 1991 from the merger of Algemene Bank Nederland and Amsterdam-Rotterdam Bank, has sharply expanded its international investment banking operations in recent years with the acquisition of London broker Hoare Govett in 1992 and Alfred Berg in Scandinavia last year.

"We have invested a lot of money on building up our investment banking capabilities, and there you have first the costs and then the revenues. But the momentum is still there, and if I look in the pipeline I see so many deals that it gives me a confident feeling that 1995 will not be the last year we have good results," Mr Kalff said.

The bank would like to expand its asset management activities, and did not rule out acquisitions in corporate banking, but had no large deals now on the table.

"The prices in the asset management business are extremely high, and we are Dutch, so we are good at calculating the return on investment," Mr Kalff said.

The weakness of the dollar against the Dutch guilder last year, however, depressed pre-tax profits from all ABN Amro's international operations, which advanced only 3 per cent in guilder terms to Fl 1.58bn. Total pre-tax profits were 14.2 per cent higher at Fl 3.84bn.

ABN Amro boosted total income by 8.2 per cent in 1995 to a total of Fl 16.21bn, with the fastest growth in revenue coming from the bank's overseas lending and investment banking activities.

Operating expenses rose by 8.0 per cent to Fl 10.94bn, with costs rising sharply overseas but held virtually flat in the Netherlands as a result of staff cuts in the domestic banking network.

Overseas costs were boosted because the bank decided to provide early for contributions of about $50m which its US banking subsidiaries, LaSalle and European American, will have to make this year to the US deposit insurance fund.

Mr Kalff was insistent that the bank had no plans to sell LaSalle or European American. He said it would be difficult to cut costs much further in the branch network, but considerable savings were likely from head office costs, which are under review.

General risk provisions dropped Fl 100m to Fl 1.4bn for 1995 – the last year for which ABN Amro will not disclose its hidden reserves. EU directives require disclosure by 1998, but the Dutch banks plan to reveal their reserves next year.

This will have the effect of increasing ABN Amro's core capital strength, since hidden reserves are counted as Tier 2 capital under the Basle capital adequacy rules, while the disclosed reserves will count as Tier 1 capital.

ABN Amro's Tier 1 ratio dipped slightly to 6.51 per cent last year from 6.74 per cent in 1994, while its total capital ratio fell from 11.02 per cent to 10.8 per cent.

Jan Kalff: '1995 will not be the last year we have good results' Photograph: Tony Andrews

Aramco poised to complete $350m Greek buy

By Kerin Hope in Athens

The Vardinoyannis group, a family-owned Greek conglomerate, is about to complete the much-delayed sale of 50 per cent of an oil refinery and chain of petrol stations in Greece to Aramco, the Saudi Arabian state oil company.

Aramco, making its first investment in Europe, is expected to pay $350m for a 50 per cent stake in both MotorOil, Greece's largest private refinery, and AvinOil, a nationwide petrol chain. Aramco is also expected to invest $50m in upgrading the refinery and carrying out an environmental clean-up at its installations on the Gulf of Corinth.

The deal was agreed last April, but was frozen because of a bitter dispute in the Vardinoyannis family over ownership of the refinery.

Two younger family members started legal proceedings against their uncle, Mr Vardis Vardinoyannis, chairman of MotorOil, claiming they were each entitled to a 25 per cent equity stake in the two Panamanian companies which control MotorOil.

A company official said yesterday that Ms Ioanna Vardinoyannis and her brother Pyrrhos had agreed to settle out of court in return for a cash payment estimated at about $120m.

The MotorOil refinery, with capacity of 4.5m tonnes yearly, supplies 600 petrol stations in the AvinOil chain and exports oil products through a separate trading company.

The refinery is supplied by a tanker fleet owned by Vardinoyannis.

According to the latest figures available, MotorOil reported a sharp drop in net income in 1994, to Dr1.6bn ($6.7m), against Dr6bn the previous year, on turnover down 6 per cent to Dr179bn. AvinOil said pre-tax profits doubled in 1995 to Dr500m, although turnover remained flat at Dr7bn.

The Vardinoyannis group approached Aramco after an earlier attempt to sell a stake in MotorOil to Libya's state oil company fell through because of political pressure from the Greek and US governments. For Aramco, which has long sought a European refining and marketing outlet, the alliance offers a relatively close base from which it could supply new markets in eastern Europe. The Saudis are expected to take an active management role at MotorOil.

The conglomerate, which started as a shipping operation run by Mr Vardis Vardinoyannis and his six brothers from Crete, is already active in Bulgaria and Ukraine.

Vardinoyannis is building a $90m lubricant plant in Ukraine and is also carrying out a $300m fleet renewal programme at a Ukraine shipyard, with nine tankers on order and options on building another 13 vessels.

EUROPEAN NEWS DIGEST

Axel Springer to lift total payout

Axel Springer, Germany's media group and publisher of Bild, the mass circulation daily, and Die Welt newspaper, is to issue a DM3 bonus and lift last year's total dividend by DM4.80 to DM17 after a rise in profits and turnover, Mr Jürgen Richter, chairman, said yesterday. Preliminary net profits will rise DM19m, from DM123m in 1994 to DM142m ($97.2m) last year.

Sales, including advertising revenue, will increase 3.3 per cent to DM4.1bn over the same period despite the continuing increase in paper costs which rose DM128m to DM557m last year.

Springer is struggling to maintain its share of advertising revenue, one of the most competitive markets in Europe. Group advertising revenue rose DM63m, from DM1.76bn to DM1.82bn. *Judy Dempsey, Berlin*

Christiania Bank at NKr2.78bn

Christiania Bank, Norway's second biggest bank, almost doubled operating profits from NKr1.47bn to NKr2.78bn ($436m) last year, after writing back as income NKr1.09bn previously set aside for loan losses. The bank's underlying performance also improved, with profits before loan-loss write-backs rising by NKr122m to NKr1.73bn despite fierce competition for business.

Efficiency had improved, market shares had risen, and loan losses had been exceptionally low in 1995, the bank said. It expects another good year in 1996, despite likely higher loan losses and continued low margins. The dividend is increased to NKr1.1, from NKr0.9. *Christopher Brown-Humes, Stockholm*

Capital gains lift Skanska

Skanska, Scandinavia's largest construction and real estate group, reports profits of SKr2.59bn ($386.2m) for 1995, an increase of SKr392m if a one-off dividend of SKr879m in 1994 is excluded. Swedish construction operations reported lower operating profits despite higher invoiced sales, but the downturn was offset by capital gains from property sales and a stronger contribution from the group's expanding international businesses. Sales rose 19 per cent to SKr38.4bn.

The group said the sharp downturn in the Swedish construction market had levelled off in 1995, but annual housing starts were still at their lowest levels since the early 1900s. International operations increased operating profits from SKr51m to SKr293m as sales rose from SKr10.1bn to SKr13.9bn. *Christopher Brown-Humes*

US takeover by Alusuisse

Alusuisse, the Swiss packaging, chemicals and aluminium group, has agreed to buy Mebane Packaging, a privately-owned North Carolina-based folding carton maker, for $92m. Mebane, which has annual sales of $120m and employs 980 people, is the leading folding carton supplier to the US pharmaceutical industry.

Alusuisse, through its acquisition of the Canadian Lawson Mardon packaging group two years ago, has already become a significant supplier of flexible packaging and folding cartons to the drugs industry. The deal is subject to the usual due diligence process. *Ian Rodger, Zurich*

Aker up 45% despite sales dip

Aker, the Norwegian oil, cement and technology group, yesterday reported a 45 per cent jump in pre-tax profits from NKr751m to NKr1.09bn ($171m) for 1995, despite a fall in sales from NKr16.6bn to NKr15.3bn.

The group, which agreed to merge its cement and building materials business with Euroc of Sweden last year, said the improvement reflected a strong rise in profits at its Norwegian Contractors unit after the completion of two projects in the Norwegian North Sea. The dividend is increased from NKr3.5 to NKr4.5 a share. *Christopher Brown-Humes*

Bridgestone Metalpha deal

Bridgestone Metalpha, controlled by Bridgestone of Japan, has acquired a Sardinian manufacturer of steel cords for tyres in an attempt to penetrate the European market. It is to invest L100bn to double the current turnover of L50bn at Gencord, in Cagliari, which it has bought from Italian authorities attempting to safeguard production at Gencord and its insolvent parent company Ferdofin, a steel maker. Europe has 30 per cent of the steel cord market and Bridgestone Metalpha, the world's third biggest manufacturer in the sector, expects strong growth in eastern Europe. It is also building a plant in the US. *John Simkins, Milan*

CORRECTION

Bridgestone

Bridgestone's consolidated net profits in 1995 were Y54.1bn, not Y88.2bn as reported in yesterday's Financial Times.

UCB lifts earnings despite flat sales and restructuring

By Caroline Southey in Brussels

UCB, the Belgian chemicals, packaging and pharmaceuticals company, said sharply improved results in its pharmaceuticals sector helped boost pre-tax profits by 35 per cent to more than BFr4bn ($133m) last year, compared with BFr2.9bn in 1994.

Net profits after exceptionals rose from BFr2.5bn to BFr3bn. Total sales saw only a slight rise from BFr49.8bn to BFr50bn, partly because of divestments during the year.

However, turnover in the pharmaceuticals division rose from BFr16.3bn to BFr18bn mainly as a result of the consolidation of UCB's new US subsidiary.

European sales also benefited from a rise in the sales of company's anti-allergy drug Zyrtec, which rose from BFr6.8bn in 1994 to BFr8bn last year.

Mr George Jacobs, UCB's chief executive officer, predicted the sales of the drug outside the US would rise to BFr9bn next year.

He said he was also encouraged by the drug's performance in the US, adding that he was now "more optimistic than I was about Zyrtec a few months ago". The US Food and Drug Administration approved the drug for registration in December 1995.

Zyrtec has achieved strong growth rates since it was launched in 1988, reaching a market share of 40 per cent in the countries where it is registered.

Mr Jacobs said the company was making profits in all three divisions, adding that this was the "third consecutive year that we [have] improved our results". The three sectors each contribute about a third to turnover, of which nearly 80 per cent is realised in Europe.

The pharmaceutical sector accounted for 60 per cent of the group's pre-tax profits in 1994.

In the chemical sector, where sales exceeded BFr17bn, the company confirmed its commitment to move away from bulk chemicals and into developing speciality products. UCB said that a downturn in Europe for this sector was offset by a "good level of sales" in the US and Asia.

Early last year UCB sold its phthalates (plasticisers for PVC) business to an Italian group for BFr3bn.

Mr Jacobs said, however, that profits from the sale were offset by the cost of restructuring the packaging sector, where UCB sold or closed four loss-making units.

Sales in the packaging sector fell from BFr15.2bn to BFr15bn but Mr Jacobs said that "by the end of the year results had sharply increased". UCB is the largest European transparent flexible packaging producer.

Ms Martine Glineur, an analyst at Brussels brokerage Mignon Hanart Declercq, said that "all the good news has been priced in the share".

But she added: "From BFr44,000 the stock has room for a rebound."

Randstad beats sector average with 45% rise

By Ronald van de Krol in Amsterdam

Randstad of the Netherlands, one of the world's biggest employment services groups, said net profits rose 45 per cent to a record Fl 163.3m ($100.4) in 1995, on sales up 25 per cent at Fl 4.7bn. Its dividend is to be raised from Fl 1.04 to Fl 1.52, an increase of 46 per cent.

The company forecast that profits and sales would continue to grow faster than the market average. The US and European markets for temporary employment services were expected to see average growth of about 10 per cent a year for the next few years, it added. In 1996, turnover was expected to outstrip the market average, while profit growth would keep pace with the sales increase.

The market for "temps", Randstad's main business, expanded by an average 24 per cent in the countries where the company is based – Benelux, Germany, France, Switzerland, Spain, the UK and south-eastern US states. Randstad's market share rose in most countries in 1995.

Randstad is also active in services such as cleaning, security and training.

Novo Nordisk in court win

A US federal appeals court has lifted a preliminary injunction against Novo Nordisk, the Danish pharmaceuticals and industrial enzymes group, marketing its human growth hormone, Norditropin, in the US, writes Hilary Barnes in Copenhagen.

This is the latest development in a long-standing battle between Novo Nordisk and Genentech, which has alleged that the Danish group infringed a series of its patents.

Novo Nordisk said it was confident the underlying district court litigation would conclude with findings that it had not infringed the patents, and that Genentech's patents would be declared invalid.

INTERNATIONAL COMPANIES AND FINANCE

Nokia says goodbye to the golden days

Pricing pressures have hurt the Finnish telecons group, writes Christopher Brown-Humes

Two profits warnings in three months and a 50 per cent collapse in its share price since September suggest the golden days are over at Nokia, after a spectacular three-year run as one of the world's leading high technology stocks.

The latest warning, on Wednesday, confirms that at the very least the Finnish group has run into a sticky patch. The question is whether it can regain momentum later this year.

The group's difficulties reflect much weaker trends in its mobile telephone division and a disastrous involvement in television set production – a business it now intends to quit. In cellular telephone infrastructure, the company is faring better.

The mobile telephone side has been hit by production bottlenecks and sharp price falls, particularly for the analogue variety. This is because Nokia is doing everything it can to hold up volumes, not just by keeping pace with fast-growing demand, but by building on its current market share. Analysts estimate the company has increased its share of the global handsets market to between 23 per cent and 24 per cent, second only to Motorola of the US.

Pricing pressures are particularly acute in the US, where analogue phones remain dominant. US prices dropped by up to 40 per cent last year, with particularly steep falls towards the end of the year. Even in Asia and Europe, where higher-margin digital phones predominate, prices fell by between 15 and 25 per cent in 1995.

The problems are not peculiar to Nokia, as the sharp drop in Motorola's fourth-quarter 1995 figures indicate. The US group warned of slower sales, falling prices, and a squeeze on margins – exactly the same trends as Nokia is experiencing.

Logistical problems have added to Nokia's difficulties. Not only has it had to absorb thousands of new staff, it has suffered from component supply problems and overestimated demand in some markets.

Both the logistical difficulties and the price pressures apply more to mobile phones than to infrastructure. This explains the sharp divergence between Nokia's telecommunications (infrastructure) business and its mobilephone unit last year. Operating margins in telecommunications rose 2.3 percentage points to 26.3 per cent of sales, while margins within mobile phones fell from 16.3 per cent to 10 per cent. Analysts says margins in both businesses will be squeezed this year.

Nokia has predicted "significantly lower" profits in the first half, and although it expects an upturn later in the year, it remains cautious. The good news is that the logistical wrinkles should have been ironed out by mid-year, while strong infrastructure orders will feed through into sales in the second half. The bad news is that the strong Finnish markka will hold the company back, while pricing pressures, although probably not as intense as last year, will persist.

Demand for mobile phones remains strong. Forecasts that the number of cellular phone users will soar to 350m by the end of 2000, up from 80m last year, have not been questioned, since they were made early last year when optimism about the industry was at its height.

Nokia says growth in Asia and Europe remains robust. Even the US market is expected to pick up next year as digital sales increase on the back of new services. "We are confident our business remains fundamentally strong," says Mr Jorma Ollila, Nokia chief executive.

But the company is suggesting its growth will be slower. This year, for example, it forecast a 30 to 45 per cent rise in revenues for infrastructure and a 30 to 40 per cent rise for mobile phones, whereas both units achieved 50 per cent increases last year.

Ms Angela Dean, technology analyst with Morgan Stanley in London, says: "We have to accept that this company can't keep growing at 50 per cent a year forever."

Just how much growth slows will depend on how quickly telecoms groups such as Alcatel of France, Siemens of Germany, and Northern Telecom of Canada can step up their competitive challenge. "These companies will be looking to gain market share through aggressive pricing," Ms Dean notes.

Nokia has signalled its response. Costs will be squeezed and a range of new phones introduced to maintain its market position.

It will also focus even more on telecommunications by withdrawing from TVs. Not only will this avoid another hefty loss from TVs in 1996, but management will no longer be distracted by trying to turn the operation around. Once the withdrawal is complete, some 85-90 per cent of Nokia's revenues will derive from its telecoms activities. Two years ago, this figure was 60 per cent. Twelve years ago, it was just 14 per cent.

Jorma Ollila: 'We are confident our business remainsfundamentally strong'

DSM expects to improve on record 1995 earnings

By Ronald van de Krol

DSM, the Dutch chemicals group, yesterday held out the prospect of "good" results in 1996 but implied they would be less spectacular than the doubled profits achieved during an "excellent" 1995.

The company, carried forward last year by surging prices for its products, posted net profits before extraordinary items of Fl 1.07bn ($655m) compared with Fl 527m in 1994. This is a record, exceeding the Fl 1.03bn set in 1989, the peak of the previous business cycle.

"This gives us confidence that, even with fierce international competition, we will have a good year in 1996," Mr Simon de Bree, management board chairman, said.

Turnover last year rose 9.4 per cent to Fl 9.8bn, pushed higher by a 14.6 per cent increase in average selling prices and an 0.9 per cent expansion of sales by volume. The price and volume-driven rise in turnover was offset slightly by the effect of divestments and unfavourable exchange rate movements.

The annual dividend is to be raised to Fl 8 a share from Fl 6 in 1994 and Fl 1.50 in 1993, taking the pay-out back to the level which prevailed from 1989 to 1991.

The doubling of 1995 results, which DSM had provisionally reported in late January, came despite a decline in fourth-quarter profits from Fl 237m in 1994 to Fl 144m. The lower fourth-quarter figure was caused mainly by price declines for hydrocarbon products such as polyethylene and polypropylene. Prices for base chemicals and other products were generally stable.

Mr de Bree said that although petrochemical prices were difficult to predict, underlying demand appeared solid. "That is why we are positive about developments in this market."

Mr Loek Ligthart finance director, noted that about two-thirds of DSM's operating profits of Fl 1.52bn were generated in the first half of the year. "This reflects the sharp change in the [industry] climate in the course of the year," he said.

For the first quarter of 1996, DSM predicted results would be "clearly higher" than in the final quarter of 1995, though much lower than the exceptionally good first-quarter profits of last year.

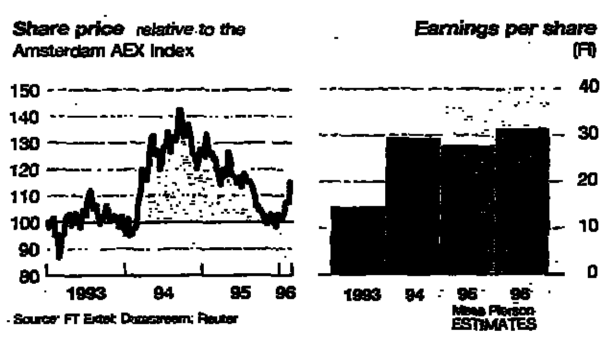
The company also said it would boost 1996 investments, excluding any acquisitions, to about Fl 1bn, compared with Fl 790m last year and Fl 450m in 1994.

Selective investments would be made to maintain the company's strong position in base chemicals. But in future DSM would also be increasingly emphasising less cyclical sectors such as fine chemicals, engineering plastics and elastomers, reducing the company's exposure to the swings of the business cycle.

COMPANY PROFILE:
DSM

Market capitalisation	$3.39bn
Main listing	Amsterdam
Historic P/E	10.47
Gross yield	4.85%
Earnings per share	Fl 29.6
Current share price	Fl 153.9

Herman Wijffels
Supervising board chairman



Source: FT Extel, Datastream, Reuter

Fokker attracts attention of China

By Ronald van de Krol in Amsterdam and Tony Walker in Beijing

The administrators of Fokker, the near-bankrupt Dutch aircraft maker, have attracted the attention of China.

The Dutch economics ministry declined to comment on reports that the interested party was Aviation Industries of China (Avic), which is responsible for overseeing the manufacture of civilian aircraft in China. However, it said: "The administrators have reported there is interest from China," but declined to give further details.

Neither the ministry nor Fokker would be drawn on a report in De Telegraaf, a Dutch daily newspaper, that Avic would be sending a delegation to Amsterdam in the next few days. Avic denied plans to send representatives to the Netherlands.

Earlier this week, Samsung of South Korea became the sole credible candidate for acquiring Fokker's assets and businesses, after Canada's Bombardier withdrew from talks with the Dutch government and the company's administrators.

The Chinese and Koreans have been planning to build a 100-seat jet with help from a western partner. They have argued, however, over where the jet should be assembled, leading some in the industry to conclude that the two will go their separate ways.

Interest from the Chinese, however, would be more surprising as they are still actively seeking western partners for their 100-seat project.

Fokker sought protection from creditors in January after its controlling shareholder, Germany's Daimler-Benz Aerospace (Dasa), cut off further financial support.

Mr Hans Wijers, the Dutch economic affairs minister who announced Bombardier's withdrawal on Tuesday, said European competitors had responded more out of curiosity than serious interest.

Avic and Samsung have both been deeply involved in negotiations with foreign companies for the manufacture of a 100-seat regional airliner. However, China and South Korea have also been vying to become the site of final assembly for the proposed aircraft.

Such a project would involve a significant leap forward for Avic, which would have a stake in an enterprise geared to foreign sales. Among Western manufacturers bidding for a share of the project are a European consortium including British Aerospace, Aérospatiale of France, and Alenia of Italy. If Avic proves to be interested in Fokker, this would probably be linked to its ambitions for the 100-seater project.

EUROPEAN NEWS DIGEST

Revamp helps BNL to L77bn recovery

Banca Nazionale del Lavoro, the Italian treasury-controlled bank, raised net profits by 70 per cent to L77bn ($49.8m) in 1995, reflecting drastic restructuring in 1994. BNL had undergone five difficult years, blamed largely on improper loans to Iraq.

The board, under Mr Mario Sarcinelli, chairman, expressed "considerable satisfaction" at the results, which will be presented at the bank's annual meeting on April 19. They confirm the trend of firmer profits reported by other Italian banks over the past two weeks, after difficulty in the financial markets in 1994. BNL will restore a dividend on ordinary shares, which are not quoted, equivalent to 2 per cent of nominal share value, and increase the dividend on savings shares from 8 per cent to 10 per cent.

Total customer deposits rose 4.3 per cent to L122,605bn while loans were 3.3 per cent higher at L129,672bn. Loans at risk accounted for 2.4 per cent of the total, against 2.8 per cent in 1994.
John Simkins, Milan

Hypo-Bank in US fund link-up

Bayerische Hypotheken- und Wechsel-Bank has begun a co-operation deal with Massachusetts Financial services, a US mutual fund company owned by Sun Life of Canada. The move is the latest example of a German bank developing asset management activities. MFS has some $35bn under management and already co-operates closely with Foreign and Colonial Management, the UK fund manager in which Hypo-Bank owns 50 per cent.

The US move, which does not involve a financial stake, is still at an early stage, the German bank said. The co-operation will initially cover distribution and marketing, but both sides intend to sell each other's fund products.

Hypo-Bank said in November that prices being paid for asset management companies were exaggerated. Bayerische Vereinsbank was also then in talks to buy Oppenheimer Group, the US investment bank and fund manager, but these fell through. Dresdner Bank recently bought San Francisco-based RCM Capital Management for $300m.
Andrew Fisher, Frankfurt

Jyske posts 10-year best

Jyske Bank, the Jutland-based bank which ranks fourth in Denmark by assets, reported an increase in profits before extraordinary items and tax from DKr171m to DKr961m ($171.1m). Pre-tax profits surged to DKr753m from DKr105m. The bank said it was the best result for 10 years. The board proposed an increase in the dividend from DKr7.2 to DKr8.00 a share.

In common with other Danish banks last year, the main factor in Jyske's turnround was a gain of DKr490m in the value of the securities portfolio, compared with a loss of DKr402m in 1994. Loss provisions were reduced by DKr9m to DKr382m. The bank said it would budget with an operating profit, excluding valuation gains or losses on the securities portfolio, of between DKr600–750m in 1996 compared with DKr686m in 1995.

For the first time in four years, the bank increased advances, by 12 per cent to DKr29.4bn, while the balance sheet total increased from DKr48bn to DKr51bn. The year-end capital adequacy ratio was 13 per cent and the core capital ratio was 10.7 per cent.
Hilary Barnes, Copenhagen

Strong market lifts Norske Skog

Norske Skog, Norway's biggest forestry group, yesterday posted net profits sharply up from NKr206m to NKr1.7bn ($268.1m). The improvement was only partly because of higher sales, which rose from NKr9.1bn to NKr12.5bn. Operating profits improved from NKr732m to NKr2.5bn. The dividend was raised from NKr1.50 to NKr6.

Norske Skog said the increase in profits reflected strong demand for paper and pulp, strong prices, high production and efficient operations. It said market conditions for newsprint should be comparatively favourable in 1996, while for magazine paper the outlook was somewhat weaker. Continued pressure on prices and reduced capacity utilisation was expected for pulp, it said. No significant changes were expected in its markets for building materials, it said.

Norske Skog's paper unit reported 1995 operating profit of NKr1.7bn compared with NKr454m a year earlier, with sales of NKr8bn up from NKr5.8bn. It said prices of newsprint rose by between 15 per cent and 25 per cent for deliveries in the first half of 1995, and by between 18 per cent and 20 per cent for the second half. Production of paper rose 8 per cent to more than 1.9m tons, it said. Sales of its fiber unit rose to NKr2.17bn from NKr1.5bn, and operating profit rose to NKr682m from NKr178m.
AFX News, Oslo

US stores struggle to overcome weak demand

By Richard Tomkins in New York

Retailers are having a rotten time of it in the US: and nowhere has this been more apparent than in their financial results for the fourth quarter to January.

At first sight, the figures look good. Top line growth seems to be the order of the day, with most big companies putting on enviable increases in quarterly revenues. The tills, one might suppose, were ringing madly over Christmas and the new year.

Madly, perhaps. But the trouble is, they were not ringing very profitably. In fact, customers proved so reluctant to shop that retailers slashed prices to keep goods moving. The result: higher sales, but serious damage to gross margins – and for many companies, lower profits, too.

There are several reasons for the weak demand. Some analysts point to sociological factors: unlike the 1980s, which were characterised by consumerism and greed, the 1990s have become characterised by conservatism, thrift and value for money. And corporate downsizing has made people worry more about their financial security.

Meanwhile, the retail sector has become burdened by over-capacity because of the rapid expansion of new, superstore formats such as discount stores and so-called "category killers" specialising in certain types of goods. Between 1985 and 1990, square footage rose from 4 sq ft a head to 18 sq ft a head – an increase of 450 per cent.

In the latest quarter, even the mighty Wal-Mart Stores, now the world's biggest retailer, showed signs of strain.

Last month it warned that lower-than-expected sales would produce its first profits downturn in 25 years as a public company: and sure enough, the company this week reported a 9 per cent fall in fourth net income to $942m, with the downturn spread across its discount store and membership warehouse divisions alike.

J.C. Penney, the department store group, had an even worse fourth quarter. Like other retailers, the company tried to drive up sales by cutting prices, but the attempt only resulted in reducing margins, and net profits slumped by 24 per cent to $326m.

The Limited, which has been badly hit by poor sales and heavy price-cutting in women's clothing, reported a 16 per cent fall in net profits to $316m. But this figure was flattered by a gain on the sale of a 17 per cent stake in its Intimate Brands subsidiary, which includes the more profitable Bath & Body Works and Victoria's Secret stores, among others. Without the gain, net profits would have slumped even further, to $180m.

May Department Stores did slightly better, nudging fourth quarter profits ahead by 6 per cent to $396m. But like several other retailers, it benefited from a comparison between a 14-week quarter this time and a 13-week period a year earlier.

Further, its figures conveniently excluded the poorly-performing Payless ShoeSource division, due to be spun off in May. With this division included, net profits sank from $401m to $365m.

Still, not all the news has been bad. A notable exception to the downward trend is Home Depot, now the biggest US retailer of home improvement and do-it-yourself supplies. Sales improved 22 per cent in the fourth quarter and net profits rose even faster, by 27 per cent to $185m.

But even here, most of the growth was attributable to the rapid expansion of a successful new retailing format: sales at stores that had been open more than a year rose by only 1 per cent.

Perhaps the biggest sparkler has been Sears Roebuck, the biggest US department store group, which reported a 28 per cent leap in underlying net profits. The increase resulted from a revamp of the stores instigated by Mr Arthur Martinez, who became chairman and chief executive last August after the spin-off of the group's Allstate insurance subsidiary.

Another notable exception to the general trend has been Gap, the clothing store group, which reported a surprising 30 per cent increase in net profits to $155m.

Much of the growth came through new store openings, but the company also seems to have the knack of stocking the clothes that people want to buy – proof that it is still possible for good retailers to do well in the US, even in the current climate.

US RETAILERS – FOURTH-QUARTER RESULTS

	Revenue ($bn) 1995	Revenue ($bn) 1994	Change on year (%)	Net income ($m) 1995	Net income ($m) 1994	Change on year (%)
Wal-Mart Stores	27.6	24.4	+13	942	1,030	-9
Sears Roebuck	10.9	10.2	+6	455	356	+28
J.C. Penney	6.6	6.6	0	326	428	-24
Home Depot	3.8	3.1	+22	185	146	+27
May Dept. Stores	3.8	3.4	+12	396	375	+6
The Limited	2.8	2.5	+9	216	257	-16
Gap	1.5	1.2	+26	155	119	+30

Figures exclude discontinued operations. Source: company reports

LSI Logic warns of drop in revenues

By Louise Kehoe in San Francisco

LSI Logic, a leading US semiconductor manufacturer, has warned that delayed orders from personal computer manufacturers would result in a drop in revenues and lower than expected income for the first quarter.

The warning is the latest sign of slowing growth in the personal computer market. PC manufacturers ordered excess quantities of chips in the fourth quarter of 1995 in anticipation of very strong sales over the Christmas period, analysts said, but sales did not live up to their expectations.

"The shortfall in revenues can be traced primarily to push-outs of personal computer-related orders originally intended for delivery in the first quarter," Mr Wilfred Corrigan, chairman and chief executive of LSI Logic, said.

The company said that revenues would be about 10 per cent below anticipated levels of about $350m in the first quarter, which ends on March 31.

Earnings are expected to be in the range of 32 cents to 35 cents a share. Wall Street analysts had been anticipating earnings of about 46 cents.

LSI Logic's shares dropped sharply on the news to trade at $27⅝ in mid-session yesterday, down $3⅝. Shares of other semiconductor manufacturers, PC manufacturers and suppliers of semiconductor production equipment were also hit.

"Aside from weakness in the personal computer segment, we are not seeing signs of order push-outs or cancellations in our other market segments," Mr Corrigan said.

He acknowledged, however, that the company had expected the PC industry to have worked through excess chip inventories by now, and LSI's profit warning raised concerns that the problem is more severe than had previously been thought.

Some analysts said excess semiconductor production capacity might become a problem if orders from the PC industry continued to slow down.

LSI's announcement follows that of Micron Technology, another US chip maker, which said earlier this week that its fourth-quarter earnings would not meet analysts' estimates.

● Mr Michael Brown, chief financial officer of Microsoft, said he expected the US software group to spend $1.5bn on research and development in the fiscal year ending June 1997, compared with about $1bn in the current fiscal year, Reuter reports from Seattle. Microsoft spent about $860m on R&D in fiscal 1995.

Mr Brown said the increase in R&D spending was needed in part to take advantage of new opportunities in the emerging Internet markets.

● Microsoft and American Express unit American Express Travel Related Services have signed a licensing agreement for software allowing secure payments on the Internet, AFX reports from New York. Online transactions with any American Express charge or credit card will use Microsoft's version of the secure electronic transactions protocol, the companies said.

AT&T to scrap Network Notes

By Louise Kehoe

AT&T plans to scrap Network Notes, a service that links users of Lotus Notes software over AT&T's telephone network, and is shifting its focus to the Internet.

The decision is a blow for IBM, which last year acquired Lotus Development, the software company that developed Notes, for $3.52bn. IBM's share price dropped $3¼ following the AT&T announcement, to trade at $124¼.

The wisdom of IBM's acquisition of Lotus, which was hailed as a bold move by Mr Lou Gerstner, IBM chairman, to propel IBM into "network-centric" computing, now looks less certain, analysts said.

Lou Gerstner: IBM chief had $3.5bn Lotus buy as bold move

The AT&T service, launched last August, was designed to enable companies to use Lotus Notes to form "electronic communities" which take in their customers, suppliers and employees who could then exchange electronic mail and work collaboratively over AT&T's telephone network.

The rising popularity of the Internet, which can be used to provide similar functions, had overtaken Notes, AT&T said. "AT&T Network Notes was designed as a proprietary network and the market has shifted to the Internet," said Ms Kathleen Earley, vice-president of AT&T EasyCommerce Services. AT&T would phase out the service by mid-year, she said, and focus its investments on Internet-based electronic commerce.

The move comes as IBM and Lotus are struggling to adapt Notes to the Internet.

"AT&T's decision is consistent with Lotus's strategy to integrate Notes and the Internet," said Mr Larry Moore, Lotus senior vice-president.

However, it is not yet clear what role proprietary work group software such as Lotus Notes might play on the Internet, where software based on Industry-wide standards prevails.

AT&T's decision raises questions about the future of other Notes-based services, including IBM's Notes service on its Global Network. Several other companies plan to offer similar Notes services, but analysts said AT&T's decision could affect such plans.

Weaker peso helps Cemex profits double

By Daniel Dombey in Mexico City

Cemex, Mexico's biggest cement company and the fourth-largest in the world, recorded strong increases in profits and sales last year.

Net income more than doubled to 5.9bn pesos ($781m), helped by the fact that as Mexico's currency fell, the peso value of overseas operations rose. Cash flow increased by 14 per cent to 6.3bn pesos.

The group lifted net revenues to 19.8bn pesos for 1995, a 23 per cent increase on 1994, largely due to the company's international operations. Mexico accounted for only 37 per cent of sales, while production in Spain, Venezuela, and the US benefited from rising operating margins.

The company registered an 8 per cent increase in total liabilities to 35.6bn pesos, 25 per cent of which is short-term debt, and 85 per cent is denominated in dollars. However, it expects operating cash flow of $1bn this year.

The Mexican economy slumped by 7 per cent in 1995, hitting the construction industry hard.

Cemex's sales fell 27 per cent, while operating margins also declined. However, sales for the fourth quarter were 14 per cent higher than during the third – proof, the company said, that the market had bottomed out in the first half of the year.

● Apasco, Mexico's second-largest producer, in which the Swiss company Holderbank has a majority stake, saw sales decline by 28 per cent for the year to 2.6bn pesos, though fourth-quarter sales increased by 18 per cent compared with the third quarter, and market share improved.

Apasco recorded a sharp fall in net income to 87m pesos for the year as a whole, a 75 per cent decline on 1994.

Analysts played down recent statements by Mexico's president Mr Ernesto Zedillo that the country's administration would fight to reduce or eliminate anti-dumping duties that constrain companies from exporting to the US directly from their Mexican operations.

"In an election year, you are not going to have US Congressmen acting to reduce duties on Mexican concrete," said Mr Roberto Carrillo, an analyst at ING Barings.

Unibanco tops forecast

By Angus Foster in São Paulo

Unibanco, one of Brazil's largest private sector banks following its takeover last year of troubled rival Banco Nacional, has announced higher than expected net profits, helped by a lower tax charge.

Unibanco reported net profits of R$154.6m (US$157.2m) in the year to December 31, against R$147.4m in 1994.

Analysts cautioned that comparing the periods was difficult because of the Nacional takeover and because Brazil switched currencies in 1994, leading to a sharp fall in inflation.

Unibanco took control of Nacional in mid-November, so the takeover had little effect on the expanded bank's operating results. Operating profits fell sharply from R$341.1m to R$238.2m, mainly because of a big increase in provisions for doubtful loans and staff costs.

Provisions more than quadrupled to R$651.3 as Brazil's economy slowed and the central bank tightened credit. Unibanco said the assets acquired with Nacional had been accounted for under Unibanco's doubtful credit policies, which are conservative.

The Nacional deal has come under scrutiny this week after allegations that Nacional's balance sheets was misrepresented for many years. The central bank admitted it was investigating a possible fraud.

The controversy which has further undermined the credibility of the bank's reported results, may not damage Unibanco since it only took control of Nacional's choicest assets, leaving most of the bad debts with the central government.

Despite a sharp fall in operating profits from R$341m to R$238m, Unibanco increased net profits thanks to a charge for tax and social contributions of only R$47.6m, against R$167.9m in 1994.

Lloyds Bank to close NY operations

By George Graham, Banking Correspondent

Lloyds Bank is to close its New York treasury operations and shift the remaining foreign exchange business to London.

The bank, which has steadily pared back its international operations, will halt foreign exchange trading in New York immediately. In all, 50 US staff will be let go from the treasury operation.

Lloyds said the bank was not a significant force in the US market and no longer had any reason to operate physically in New York. Customer foreign exchange requirements will be covered by Lloyds' night trading desk in London.

Lloyds shut its Tokyo treasury operations last year as it found it could do the same business from its Bank of New Zealand subsidiary.

NEWS DIGEST

Nova and Union Carbide in alliance

Nova, the Calgary-based pipeline and chemicals group, is to join forces with Union Carbide of the US to build a US$800m ethylene plant at Joffre, Alberta. The plant will add 2bn lbs of capacity a year to Nova's petrochemical complex at Joffre, bringing total capacity to 5.4bn lbs and making Joffre the world's biggest ethylene manufacturing site. The project, due for completion in 2000, will supply markets mainly in North America and Asia.

Ethylene, made from the ethane component of natural gas, is used in the production of polyethylene – the most widely used plastic for consumer goods and packaging. Nova is also considering building a new polyethylene plant at Joffre. Mr Ted Newall, Nova's chief executive, said economies of scale, ethane infrastructure, and competitive feedstock costs would make the new the ethylene plant one of the lowest-cost facilities in the world. *Bernard Simon, Toronto*

Toronto-Dominion Bank rises

Improved interest-rate margins, securities gains and lower loan losses helped Canada's Toronto-Dominion Bank to a 24 per cent rise in first-quarter earnings. Net earnings grew to C$222m (US$161m), or 70 cents a share, in the three months to January 31, from C$179m, or 56 cents, a year earlier. Return on equity climbed to 15.2 per cent from 13.2 per cent

The bank estimates 1996 loan losses at C$170m, down from C$180m last year. One-quarter of the provision, or C$43m, was charged against first-quarter earnings. Non-performing loans stood at C$212m on Jan 31, less than half the level a year earlier, and the lowest proportion to total loans in 10 years.

Net interest margins widened by 21 basis points to 2.7 per cent, due mainly to lower funding costs. The average margin was 4 basis points higher than the previous three months. Assets grew by 4 per cent to C$107bn, due entirely to higher cash and securities holdings. *Bernard Simon*

Canadian Airlines in the red

Canadian Airlines International posted a final 1995 loss of C$194.7m (US$141m), or C$4.67 a share, after restructuring charges and one-time costs related to route expansion. In 1994 the airline, minority owned by American Airlines, recorded a restated loss of C$53.7m, or C$1.30 a share.

The airline had warned in December it would show a heavy 1995 loss, but now says it has strengthened its cash position and competitiveness. However, it faces competition from two low-cost carriers starting up in western Canada.

Operating revenues were C$3.1bn, up 5.9 per cent, with strong international traffic gains and a moderate improvement in North America. Operating expenses were stable and the airline's load factor averaged 65.3 per cent. "We expect significant improvement in 1996 and the restructuring is showing positive results," said Mr Kevin Jenkins, president. *Robert Gibbens, Montreal*

Mayne Nickless down at midway

Net profits at Mayne Nickless, the Australian transport and medical group, fell 31.6 per cent to A$50.1m (US$38.2m) in the half-year to end-December. Mr Ian Webber, chairman, said the drop was largely due to higher interest payments, resulting from ceasing to capitalise the interest on an investment in Optus Communications, the private Australian telephone company, and increasing the investment in Optus during the period.

Optus made a A$7.1m profit in the first half of 1995-96, against a loss of A$26.4m. Overall sales in the Mayne Nickless group declined 0.2 per cent to A$1.48bn, but earnings before interest and tax increased 1.3 per cent to A$102.1m. Earnings per share slipped to 17.9 cents from 23.7 cents, and the interim dividend was cut 1 cent to 17 cents. Since July 1995 the group has made a series of divestments aimed at concentrating the company on its core areas of logistics and healthcare.

In Australian healthcare operations, revenue increased 57 per cent to A$227m, almost half of which was due to the purchase of Australian Medical Enterprises. *Bethan Hutton, Sydney*

Renison improves in first half

Australia-based Renison Gold Fields, which hived its goldmining interests off into the listed Goldfields group last year but retains a 55.8 per cent interest in the company, yesterday announced an after-tax profit of A$33.7m (US$25.7m) for the half-year to end-December. This compared with A$20.8m in the same period of 1994-95. Operating revenues rose from A$312.1m to A$477.7m, and basic earnings per share increased from 10.4 cents to 16.6 cents.

Much of the upturn was due to a stronger performance by Renison's mineral sands interest, which contributed A$39.8m in pre-tax operating profits, compared with just A$14.8m last time.

Renison also said it would develop the Old Hickory mineral sands resource in Virginia, in the US. The cost will be A$53m, and production should be available for sale by October 1997. *Nikki Tait, Sydney*

Canadian oil group advances

Canadian Occidental Petroleum lifted 1995 net profits to C$141m (US$107.5m), or $2.10 a share, up from $96m, or $1.44, in 1994, after benefiting from strong gains in oil output, dramatic growth in chemicals and strict cost controls.

Revenues were ahead from C$1bn to C$1.2bn. Net oil output averaged 134,000 b/d, up from 119,000 b/d, with most of the gain coming from the Masila field in the Yemen.

Capital spending will reach C$500m in 1996, up from C$474m in 1994, aimed at increasing Yemen production and boosting reserves in North America, the North Sea, Vietnam, Indonesia, Nigeria and Kazakhstan. *Robert Gibbens*

Trilon ahead to C$88m for year

Trilon, the financial services arm of Toronto's Hees-Edper group, posted 1995 net profits of C$88m (US$64m), or 36 cents a share, up 52 per cent from $58m, or 25 cents in, 1994. Revenues advanced to $5.67bn, a 13 per cent rise. London Insurance, the biggest unit, performed well and the commercial lending and property subsidiaries recorded improvements. *Robert Gibbens*

Hongkong and Shanghai Hotels ahead

By Louise Lucas in Hong Kong

Hongkong and Shanghai Hotels, the hotels and property company controlled by the Kadoorie family, yesterday reported a 27 per cent rise in net profits for calendar 1995, from HK$512m (US$66m) in 1994 to HK$652m, comfortably meeting market expectations.

Operating profits were up 51 per cent, from HK$636m to HK$962m last year.

The hotels business was the main driving force behind the rise, after the renovation of the company's flagship luxury Peninsula hotel in Hong Kong. The hotel's new tower extension was completed last year, and work which had restricted occupancy in 1994 came to an end.

Mr Michael Kadoorie, chairman, said the revamp of The Peninsula, together with that of The Peninsula Manila and The Kowloon Hotel, also in Hong Kong, marked the group's strategy of enhancing existing products.

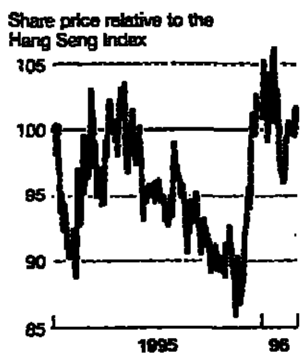
The second leg of that strategy, controlled expansion, was exemplified by hotel and property joint-ventures in Vietnam and Indonesia.

The company made a provision of HK$80m against its Thai investments, which include The Peninsula Bangkok, due to open toward the end of 1997, and a golf club. A residential complex to be attached to the latter has been delayed because of the economic downturn.

Mr Gordon Crosbie-Walsh, analyst with Schroders Securities Asia, said the hotels' operating profit increased 84 per cent to HK$505m, largely as a result of the larger contribution from the Hong Kong Peninsula's 229 rooms and nine restaurants. He forecast another strong performance this year, and was looking for an attributable profit of HK$850m, exempting any provisions which may be made against the Thai operations.

Earnings per share rose 27 per cent, from 47 cents in 1994 to 60 cents last year. Directors are recommending a final dividend of 22 cents a share, giving a full year distribution of 30 cents compared with 1994's 24 cents.

HK & Shanghai Hotels



Source: FT Extel

Suffering set to drag on for Japan's financial system

Equion bankruptcy suggests the jusen could take non-banks with them

Anxiety over the stability of Japan's financial system has heightened this week as the liquidation of a medium-sized Japanese money lender flushed out the bad loan problems facing the country's non-bank lenders.

The non-bank problem has come under scrutiny after Wednesday's announcement that Equion, a Tokyo-based money lender, had filed for court protection with debts of Y310.6bn ($2.97bn).

The move triggered fears that the country's bad debt problem would continue beyond the resolution of the problems of the *jusen*, or housing loan companies, which face imminent liquidation under a government plan.

The extent of the non-bank problem is believed to be far larger than that of the jusen, which are saddled with bad loans of at least Y6,400bn and are virtually bankrupt.

According to a survey by the ministry of finance, loans extended by 278 leading non-bank lenders totalled Y55,800bn as of March 1995. Of these 42 per cent were extended to other non-banks, 36.5 per cent to real estate companies and 3.7 per cent to construction companies.

This indicates that the non-bank lenders had more than Y22,000bn in property-related lending.

It is likely that the bulk of these loans have turned bad, considering that Equion collapsed because of property related lending. It was hit by the sharp decline in real estate values at the start of this decade, and 90 per cent of its loans were bad.

Hence, although the ministry of finance last week announced that bad debts held by banks related to non-bank lenders totalled Y7,000bn, most analysts estimate the banks' exposure to the non-bank sector between Y80,000bn and Y100,000bn and expect a far larger figure for the bad loan figure to the sector.

"People are starting to realise that the jusen problem was the tip of the iceberg. The main concern is whether the ministry of finance knows the extent of the problems at the non-banks," says Mr Brian Waterhouse, finance analyst at James Capel in Tokyo.

The irony may be that the problems at the non-banks are likely to be partly induced by the government's controversial jusen liquidation scheme, expected to be approved in parliamentary committee next week and involving the injection of Y685bn in public money. This because companies that borrowed from the jusen have also borrowed heavily from the non-banks.

The "worst case scenario" circulating among the financial community is that the jusen liquidation will precipitate a spate of bankruptcies of their borrowers, who have relied on the jusen for funds. This in turn will hit the other creditors, including the non-bank financial institutions.

While some financial analysts believe such views are unduly alarmist, they agree that the effect of the non-banks' exposure on the banks' profits will be severe and will also drag on. "It will be a long and winding road," says Mr James Fiorillo at ING Barings in Tokyo.

The ministry of finance declared during a parliamentary committee session this month that, unlike in the case of the jusen, public funds will not be used for the liquidation of the non-bank lenders.

The larger banks have already started to write off their debts to non-banks. Aside from Y3,700bn in jusen losses, the country's top 21 banks are expected to write off Y4,700bn in losses to non-bank financial institutions.

If bankruptcies of the non-bank lenders continue, the country's banks may be unable to realise the profit recovery which had been expected to happen in two to three years. Mr Waterhouse at James Capel does not expect a recovery for at least another five years because of banks' exposure to the non-bank sector. "It will very painful and a long and drawn-out process," he says.

Emiko Terazono

Write-off holds Teva to 11% advance for year

By Avi Machlis in Jerusalem

Teva Pharmaceuticals, Israel's biggest pharmaceutical products manufacturer, yesterday reported an 11 per cent increase in net income last year, from $71.6m in 1994 to $79.8m. Earnings per share rose from $1.32 per American Depositary Receipt to $1.46.

Teva, which derives most of its income from manufacturing generic drugs, is awaiting US Food and Drug Administration approval of its first innovative drug, Copaxone, a treatment for multiple sclerosis. Approval, which may come as soon as next month, could mean a big boost to the company's income.

Teva, the most heavily traded Israeli company on Wall Street, said the annual results included a one-time write-off of a $4m debt to Israel's General Health Fund.

Full-year net income before the write-off totalled $83.8m, an increase of 17 per cent.

Fourth-quarter net income, at $23.8m before the write-off, was 25 per cent higher than the year-ago figure: after the write-off, net income of $19.8m represented a 5 per cent increase. Fourth-quarter earnings per ADR increased 2 cents to 36 cents.

Revenues in the quarter rose from $160.6m in 1994 to $192.9m in 1995 – a 20 per cent advance – and annual revenues were up 14 per cent from $587.7m to $667.7m.

ICI SpA, an Italian bulk pharmaceutical manufacturer, and Biogal Pharmaceutical Works, of Hungary, both purchased by Teva during the fourth quarter of 1995, contributed $11m to the Israeli company's revenues for the three months.

Teva – which is traded both on the Nasdaq exchange in New York and on the Tel Aviv Stock Exchange – last year received 12 approvals for new generic drugs, as well as filing final documentation with the FDA for Copaxone. In December, Teva announced agreement with Hoechst Marion Roussel, the US-based drugs arm of Germany's Hoechst, to distribute Copaxone in Europe and other markets.

Teva shares slipped 0.5 per cent in Tel Aviv yesterday, from Shk1,338.26 to Shk1,331.57.

Acacia in A$87m bid for Solomon Resources

By Nikki Tait in Sydney

Acacia Resources, the Australian goldminer floated off by Shell Australia in 1994, yesterday made an all-share offer for Solomon Pacific Resources.

The 1-for-6 share swap bid values the smaller goldminer at about A$87m (US$66.4m). Acacia also said it had acquired an option over an 18.9 per cent interest in Solomon which is currently held by Climax Mining, another small listed mining company.

Solomon dismissed the offer as unsolicited and "highly opportunistic" and urged shareholders to take no action, pending further advice.

Acacia, formed in late-1994 when Shell moved its gold assets into the new company and floated 100 per cent of Acacia shares on the stock market, indicated it was particularly interested in Solomon's Brocks Creek project in the Northern Territory. This lies just 50km from Acacia's existing Union Reefs open-pit goldmine.

The bid came as Acacia announced an after-tax profit of A$22.1m in the year to end-December, up from A$20.3m last time.

COMPANY NEWS: UK

Acknowledgement of consolidation case fans takeover speculation

£20m provision limits Willis Corroon rise

By Ralph Atkins, Insurance Correspondent

Willis Corroon, the insurance broker, fanned takeover speculation yesterday by acknowledging there might be a case for consolidation in the sector, as it unveiled 1995 results spoilt by a £20m provision for past underwriting activities.

Pre-tax profits on continuing operations before exceptionals reached £78m ($122m), against £57.4m last time. But Willis took provision of £16.6m in 1995 for costs associated with surplus properties on long leases.

The underwriting provision was for administering claims from Sovereign, a London insurance market operation which Willis closed in 1991. The group said that "running off" the business was taking longer than the 15 years originally expected and the £20m provision would cover expenses for a further 20 years, up until 2025.

Operating expenses fell 2 per cent as Willis implemented, on target, a restructuring programme launched in 1994 for which a £49.1m exceptional was taken last time. Annual costs have been cut by £28.5m and headcount by 1,142 to 10,290. But Mr John Reeve, Willis' new executive chairman, said a further strategic review was underway to assess clients' needs and where value could be added by brokers. He said the outlook "remains difficult" amid increased competition, changing demands from industrial clients and fierce premium rate cutting.

Last week Mr Sax Riley, chief executive of rival broker Sedgwick, said there were six main international brokers but "the cake can really accommodate three or four".

In reply, Mr Reeve said: "We are watching the situation closely. We're not ruling anything in or anything out." But, he added, any decisions taken by Willis – which is not thought to have received or made any approaches – would be based on whether there were useful potential economies of scale.

"Big-ness for the sake of being big is not a criteria for us," he said.

The 1995 results showed operating revenues stable at £714m as higher investment income and new business offset the effects of competition. Earnings per share were 7p (nil) and the group announced an unchanged first quarter dividend of 1.65p.

Forecast pre-tax profits for this year are £90m for a prospective multiple of about 11.

Green shadow on the forecourts

Deborah Hargreaves on Mobil and BP's European joint venture

Mobil petrol pump attendants around Europe will be donning green uniforms in the next few months as the service stations are transferred into a partnership created by the US oil giant and British Petroleum.

All European service stations will be transformed into the distinctive green BP livery as the UK oil company assumes responsibility for running them. Mobil will be in charge of the lubricants business.

The partnership, which will include 8,900 service stations in 43 countries across Europe, will also display its logo beneath signs for BP fuels and Mobil lubricants.

"The customer will see a uniform offer: all sites in the joint venture will have the same green presentation," said Mr Rolf Stomberg, head of BP Oil. It is likely to cost up to $200m (£129.8m) and take up to two years to transform the Mobil stations.

The partnership creates the second largest oil marketing company in Europe with 12 per cent of the market – just behind Royal Dutch/Shell's 12.3 per cent and ahead of Exxon's 10.1 per cent. In many countries, the partnership will be the dominant player.

Combined assets will give BP and Mobil between 16 and 17 per cent of the UK market – rivalling the 17 per cent share of Exxon, the biggest player. This will strengthen their hand in the recent UK price war, which many in the City believe triggered the partnership's formation.

In France, which Mr Stomberg describes as the most competitive fuels market in Europe, the joint venture will have 8-9 per cent of the market – just behind the two large French companies. Similarly, in Germany and Spain, market shares will be around 9 to 10 per cent – excluding Mobil's interest in the Aral joint venture.

Mr John Browne, BP chief executive, said the companies would build on their position to expand into central and eastern Europe and to make the most of many of their prime real estate sites. Both companies expect to make significant cost savings and could beat the target of annual savings of $400m to $500m in three years.

Mr Browne said the savings would be in three areas: 60 per cent from eliminating duplication in the businesses, 25 per cent by synergies between the marketing and distribution operations and 15 per cent from economies of scale, such as procurement.

Both companies have made large strides to try and trim capacity and improve profitability in their European refining operations in recent months. Mobil said it had stripped out $200m in costs last year by closing its Wörth refinery in Germany and rationalising two smaller refineries in the UK and France. BP closed part of its refinery in the Netherlands and said another was for sale last month.

The companies said their partnership could not go ahead without these cuts, which would all proceed as planned.

But the European refinery sector remains dogged by overcapacity – Mobil has estimated that closures address only half of the current 800,000 to 900,000 barrels a day surplus and analysts describe European refinery margins as "abysmal."

Mr John Toalster, oil industry analyst at Société Générale Strauss Turnbull, was sceptical yesterday about the partnership's ability to deliver significant cost savings. "It looks like a number of years before there is any financial benefit at all and then it only looks like savings on head office staff."

The companies were sensitive to criticism that partnerships had foundered in the past: "We have decided not to nit pick or let egos get in the way of this working. We don't want to be reduced to playing silly games between partners," Mr Lou Noto, chairman and chief executive of Mobil, said.

Ashley Ashwood

John Browne (left) and Lou Noto: aiming to expand into central and eastern Europe

DIGEST

Motor components shake-out seen

Mr George Simpson, chief executive of Lucas Industries, yesterday predicted a shake-out in the motor components industry as car manufacturers moved increasingly to single source suppliers. Speaking at the Society of Automotive Engineers conference in Detroit, he said the sector was facing a period of enforced rationalisation.

"There will be a major consolidation as companies seek strategic alignments or mergers. We might have no more than 15 to 20 global tier one suppliers by 2010."

He was commenting after news emerged in France that Cerus, the French holding company of Italian industrialist Mr Carlo De Benedetti, was seeking a buyer for its 28 per cent stake in Valeo, the Paris-based components group. *Tim Burt*

Hanson unit raises $780m

Surburban Propane Partners, the Hanson subsidiary, has raised $780m in an initial public offering of 64 per cent of the business and a placement of senior notes. Suburban issued 18.8m shares at $20.50 each, and $425m of senior notes. The proceeds will be used to cut debt.

The business, one of the disposals identified by Hanson in its demerger programme, has about 6 per cent of the US retail propane gas market.

The public offer closes on March 5. The senior notes, which have a 7.54 per cent fixed coupon and a 15-year final maturity, have been placed privately by Smith Barney, Lehman Brothers and Paine Webber. *Motoko Rich*

Guinness in Chinese move

Guinness confirmed yesterday that it was talking with China's largest distiller about a whisky-making joint venture in the country. Macdonald Martin, best known for its Glenmorangie malt whisky, is one of the few already involved but its focus initially is on helping its Chinese partner improve the quality of its local products.

In China, Yibin Wuliangye Distillery said it was close to concluding a deal with Guinness on a Yn1.3bn ($154m) joint venture. Whisky would be made from local grains with the help of Guinness expertise and finance. *Roderick Oram*

TransAtlantic seeks buys

A £110m gain on the disposal of its 50 per cent stake in Sun Life helped TransAtlantic, the financial services and property group, more than double pre-tax profits from £90.1m to £203.7m in 1995.

Underlying profits improved by 9 per cent from £86m to £93.8m.

The group recently acquired a 70 per cent holding in Portfolio Fund Management, a unit trust group, and is about to launch a Jersey-based asset management and life insurance business. It also has £548m cash and intends to acquire a life insurance business.

"We are keeping very close to perhaps six companies or mutuals in the UK and a similar number in the US," said Mr Gordon. "The prices being asked are a bit exotic at present but we have patience." *Simon London*

US boost for Quarto

Quarto Group said that buoyant US sales and strong improvements in European performance helped offset the depressed UK market and raise pre-tax profit for 1995 from £6.28m to £7.01m.

Quarto is buying Walter Foster Publishing for $5m. The California publisher of popularly-priced art instruction manuals recorded sales of $5.43m last year. It is expected to be only slightly earnings enhancing this year.

Thistle Hotels float plans denied

Thistle Hotels, the former Mount Charlotte Investments, saw pre-tax profits jump 50 per cent to £34.8m in 1995.

There has been widespread speculation that the group, which is 70 per cent owned by Brierley Investments, would be floated this year. But Mr Robert Peel, chief executive, said yesterday that he had no knowledge of any plans to come to the market.

Newman Tonks in US buy

By Simon Kuper

Newman Tonks Group, Europe's largest architectural hardware company, is to buy Republic Industries, a private US doormaker, for $45.5m. The price is more than double Republic's net asset value.

Republic makes automatic doors and door hardware under the Dor-O-Matic tradename. Its adjusted pre-tax profits for 1994 were $5.1m on sales of $43.7m. Net cash was about $3m in December 1995.

The acquisition, the group's largest in recent years, will be financed by debt and will take Newman Tonks' gearing to 80 per cent. Mr Nick Keegan, finance director, said the group planned to reduce this to "below 50 per cent" by selling profitable but non-core interests. But he said he expected no disposals for "at least six months".

SmithKline to cut out duplication

By Daniel Green

SmithKline Beecham, the Anglo-US pharmaceuticals company, is to shut or sell more than 10 per cent of its manufacturing sites and shed 400 jobs in a restructuring triggered by acquisitions in 1994.

Eight sites in six countries are affected. A further two plants will grow in size. The losses, out of a total workforce of 50,000, are expected to be implemented by 1998.

The closures follow others in Singapore and Puerto Rico. Most have come about because the $2.9bn acquisition of Sterling Health, from Eastman Kodak created "duplicate manufacturing facilities in many countries," said SmithKline.

The majority of closures had now been finalised and made public, it said.

Four plants will be sold or closed: Dijon and Pessac in France, Gronau in Germany, and Rome, Italy. Another plant, in Zaragoza, Spain, has already been sold.

Three further plants will be reduced in size: Crawley, south of London, Heppignies in Belgium and Baranzate in Milan. A plant in Dungarvan, County Waterford in Ireland, acquired with Sterling, will be expanded as will another plant in Worthing, Sussex.

The net effect will be to reduce the number of manufacturing sites from 73, before the Singapore and Puerto Rico closures, to about 60.

SmithKline said that the aim of the changes was "to improve efficiency" in regions were manufacturing was duplicated, rather than to reduce the numbers employed.

The pharmaceuticals industry is in a period of deep restructuring as customers bear down on healthcare costs.

T&N extends options over stake in Kolbenschmidt

By Tim Burt

T&N, the motor components and specialist engineering group, yesterday reaffirmed its interest in acquiring Kolbenschmidt by extending options over a 49.99 per cent stake in the German pistons manufacturer.

Although the German cartel office has rejected the proposed takeover, T&N decided to extend its options – first acquired in September 1994 – while it explores other ways of extending its presence in the European pistons market.

The UK company is pursuing three courses in trying to secure either control or strategic interest in Kolbenschmidt: It is appealing against the cartel office ruling; discussing a possible joint venture with the German group; and considering an approach to takeover authorities at the European Commission.

Sir Colin Hope, chairman, said he was hopeful that the cartel office would reconsider its earlier decision following fresh submissions by T&N.

Sir Colin said T&N would be making a £12m ($18.5m) provision against its 1995 profits to cover the initial investment in the share options, which had previously been included on the balance sheet.

Even so, he said the value of the options had increased with Kolbenschmidt shares trading at DM200.7 yesterday, against a strike price on the 49.99 per cent holding of DM180.

Most analysts expect T&N to announce pre-tax profits of £126.5m next Wednesday, against a pre-exceptional total of £110.7m last time or £10.7m after asbestos-related provisions.

Lasmo returns to black with £34m

By Patrick Harverson

Higher oil prices and lower costs have helped a revitalised Lasmo, the UK's largest independent oil explorer, back into the black for the first time since 1990.

Pre-tax profits in 1995 were £34m, against a £3m loss a year earlier after charges. However, revenues were slightly lower at £637m (£648m) following the sale of mature higher-cost assets, which offset a rise in the average oil price to $17.09 (£11) per barrel ($15.96).

Mr Joe Darby, chief executive, said: "We're delivering on our promises and doing the right things to add shareholder value." He did not expect Lasmo, which fought off a bid from Enterprise Oil in 1994, to be the subject of a takeover bid, despite recent speculation.

Particularly encouraging was the rise in the reserve potential of Algerian interests to 1.5bn barrels. Lasmo has booked 82m barrels as its share of the field's gross commercial reserves of 815m barrels.

The company's drive to become a low-cost producer by selling older oil fields and introducing more rigorous cost controls continued to pay off. Unit operating costs fell from £3.41 to £3.17 per barrel, and the company said it was on target to cut costs to £3 per barrel in 1997.

RESULTS

	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Bellwinch	6 mths to Dec 31	9.6	(13.62)	1.54L♠	(0.84)	3.4L	(1.4)	-	-	0.2	-	0.2
British Aerospace	Yr to Dec 31 ★	5,741	(7,153)	234♠	(208♥)	27.4	(30.4)	7.5	June 3	6	12.5	10
Burford	Yr to Dec 31	34.4	(27.4)	11.7♠	(14.7♥)	3.04†	(4.28)	1.1	Apr 9	1	1.95	1.75
Cantab Pharms	Yr to Dec 31	0.755	(1.36)	6.14L	(4.15L)	0.61L	(0.42L)	-	-	-	-	-
City Site Ests	Yr to Sept 30	10.6□	(10.2□)	0.902	(2.07)	3.21L	(4.29)	nil	-	nil	nil	nil
Countyglen ♣	6 mths to Oct 31	nil	(-)	0.273L♠	(-)	7.5L	(-)	-	-	-	-	-
Cowie	Yr to Dec 31	1,001	(934.2)	55.8♠	(43.6♥)	26.8†	(22.6)	7.35	Apr 17	6.4	10.4	9.125
Davies (DY) §	6 mths to Oct 31	2.74	(2.91)	1.07L♠	(0.038L)	17.6L	(0.6L)	nil	-	nil	-	nil
Fletcher King	6 mths to Oct 31	2.31	(1.88)	0.049	(0.599L)	0.3	(6.9L)	0.5	Mar 26	0.5	-	1
Green Property ♣	Yr to Dec 31	10.04	(8.53)	6.38	(4.03)	12.58	(10.59)	3.1	Apr 19	3	4.4	4.2
Isotron	6 mths to Dec 31	4.59	(4.16)	1.68	(1.46)	8.8	(7.2)	2.01	May 2	1.83	-	5.25
Lasmo	Yr to Dec 31	637	(648)	34♦	(3L♠♦)	1.6	(2.4L)	1.25大	May 3	1.25大	1.25	1.25
Life Sciences Intl	Yr to Dec 31	204.8	(178.2)	20.7♠	(28.5)	7.8	(10.8)	2.8	May 10	2.8	4.4	4.4
Quarto	Yr to Dec 31	68.47	(57.93)	7.01	(6.28)	24.8	(20.8)	5.25	May 15	4.3	7.25	6.3
Regina §	Yr to Aug 31	1.53	(1.72)	0.422L	(0.24L♥)	2.79L	(0.17L)	-	-	-	-	-
Seet	6 mths to Oct 31	3.17	(3.7)	0.132	(0.101♥)	1.4	(0.4)	nil	-	nil	-	nil
Serco	Yr to Dec 31	323.3	(260.2)	15.2	(12.5)	15	(12)	3.25	Apr 19	2.75	4.7	4
Sherwood Computer	Yr to Dec 31 ★	26.2	(27.1)	6.85♥	(0.079♠)	79.5	(10.7L)	2.5	Apr 26	2	3.75	2
Southern Vectis Φ	6 mths to Oct 31 ☆	13	(14.3)	0.881♠	(0.950)	-	(-)	-	-	-	-	1.6
TransAtlantic	Yr to Dec 31	182.6	(136.2)	203.7♥	(90.1♥)	51‡	(15.99)	7.9	May 8	7.2	14.5	13.2
Willis Corroon	Yr to Dec 31	686.6	(671.3)	50.2♠	(5.5♠)	7	(nil)	1.65⫯	Apr 1	1.65	-	6.6

Investment Trusts	Period	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
BZW Convertible	6 mths to Jan 31	117.44	(111.97)	2.4	(2.03)	4.69	(3.96)	1.5■	-	1.5	-	7.8
Flem Natural Res	13 mths to Dec 31	111.3	(-)	0.332	(-)	0.81	(-)	0.54	May 7	-	0.54	-
Glasgow Income		-		-		-		0.6‡	May 31	0.6	-	2.8
Jos	6 mths to Jan 31	258.1	(209.4)	0.389	(0.283)	6.02	(4.37)	3.33#	Apr 12	2.95	-	13.525
Murray Ventures	6 mths to Jan 31	436.8	(397.4)	1.85	(1.67)	7.46	(6.74)	3.7	May 24	3.6	-	12
Templeton Latin	Yr to Dec 31	-	(-)	0.275	(0.365)	0.59	(0.79)	0.35	June 12	0.52	0.35	0.52

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ★Comparatives restated. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. □Rental income. ♣Irish currency. ♦Post tax. 大Foreign income dividend. §USM stock. ΦAim stock. ☆Comparatives for year to April 30. ‡On reduced capital. ⫯First interim. ■Second interim; makes 3p to date. ‡First interim. #Second interim; makes 6.66p to date.

COMMODITIES AND AGRICULTURE

Wary funds blamed for weak platinum market

By Kenneth Gooding, Mining Correspondent

Investment funds which bought platinum and palladium last year, speculating on price rises, suffered big losses when prices dropped sharply. As a result they are now wary of these markets, Mr Trevor Pitts, manager of marketing platinum group metals at Standard Bank, suggested yesterday.

This was the reason platinum group metals had not followed gold when its price rose strongly this year, driven up by fund speculation.

Launching Standard Bank's Platinum Yearbook in London, Mr Pitts suggested that platinum this year would trade in a range between US$390 and $440 a troy ounce, 2½ per cent below the 1995 range of $400 to $450.

This year's trading range for palladium was forecast at $120 to $160 an ounce.

Platinum closed in London last night at $412.25 an ounce and palladium at $138.

Mr Pitts recalled that fund buying sent platinum to a peak of $461.25 a troy ounce in April last year after Engelhard, the specialist materials group, announced a "potentially sensational" car catalyst which promised to remove ozone and pollutants already in the atmosphere.

In November Engelhard said that the catalyst would not use platinum group metals. At the same time, Mr Pitts said, "that old chestnut about sales from the US government's strategic stockpile returned to haunt the market".

As a result, by the last trading day of 1995 platinum was at $398.25, its lowest level for the year.

Meanwhile speculative fund interest in the palladium market drove the price to its highest level this decade: $178.25 an ounce.

However speculators underestimated the ability of Russia, the biggest platinum producer, to meet increases in demand and its desire to prevent prices rising too high.

"We believe that the speculative froth sucked more producer metal into the market than was justified by demand and consequently the rest of the year saw prices under pressure from this oversupply," said Mr Pitts.

By December 29 palladium's price was down to $127.50 an ounce.

"We may have seen the worst in the current cycle [in the palladium market] and 1996 should be a year of gradual recovery as further increases in demand soak up the surplus metal," Mr Pitts said.

Strikes undermine Jamaican bauxite expansion

Productivity worries are jeopardising investment in refineries, Canute James reports

Jamaica's ambitious plans for expanding its bauxite refining capacity are being threatened by concerns about productivity and labour relations.

The expansion programme for the world's third-largest producer of bauxite ore, after Australia and Guinea, aims to increase alumina output by more than half in four years. Mining and refining companies, however, say they are concerned about "uncertain" labour relations, following a series of mainly wage-related strikes last year which shut refineries.

The industry is becoming increasingly uncompetitive, the companies say, threatening initial investments of about US$500m in refinery expansion.

The island's earnings from its main commodity export are also being affected. The loss of output from last year's strikes reduced earnings by an estimated $50m.

However stronger market prices helped the industry earn $710m last year, 15 per cent more than the previous year. "Our great concern is industrial relations," says Mr Carlton Davis, chairman of the Jamaica Bauxite Institute, a state agency which monitors the industry. "The government is aiming at a social contract and other initiatives to deal with this. Miners and refiners are waiting to expand, but they are not enthusiastic about doing so until they see clear evidence that last year was an aberration."

Senior officials of the mining and refining companies say they have no intention of closing their plants in Jamaica, but will invest "just what is needed" to keep the plants going until they feel able to commit themselves to the planned capacity expansion.

The strikes last year depressed ore production to 10.9m tonnes, 6.2 per cent less than a year earlier. Alumina production of 3m tonnes was 6.6 per cent lower.

Labour productivity and poor labour relations are regarded by miners and refiners as significant weaknesses in the Jamaican industry, according to Mr Gene Miller, general manager of Alumina Partners, the island's largest refiner, which is owned by Kaiser Aluminum of the US and Hydro Aluminium of Norway.

"We do not have poor industrial relations, but we have poor wage negotiations," Mr Miller says. "Jamaica should be aware of the detrimental effects of labour disputes on the industry in 1995. Among the more than 60 alumina plants worldwide, Jamaica ranked the lowest in terms of tonnes per employee."

Labour productivity also concerns the Bauxite Institute. Mr Davis agrees that the industry is becoming increasingly uncompetitive: "Jamaican bauxite mining and refining have lost a lot of ground in wage productivity.

"The average wage in Jamaica is the equivalent of US$6.25 per hour. An Australian worker might get the equivalent of US$20 per hour, but Jamaican plants produce 0.4 tonnes per man hour, while Australian and other plants are running at 1.6 tonnes per man hour."

Workers' organisations have rejected suggestions that they are to blame. Unions say that Jamaica's high inflation (22 per cent in 1993, 35 per cent in 1994 and an estimated 24 per cent last year) has forced them to make seemingly large wage claims for workers in the bauxite industry.

"We are also concerned at worker productivity levels, and we have significant increases in production and productivity in companies which accept unions' proposals for incentives for workers," says Mr Lambert Brown, vice-president of the University and Allied Workers Union. "Not all companies in the industry have been willing to accept the need for production incentives to improve productivity."

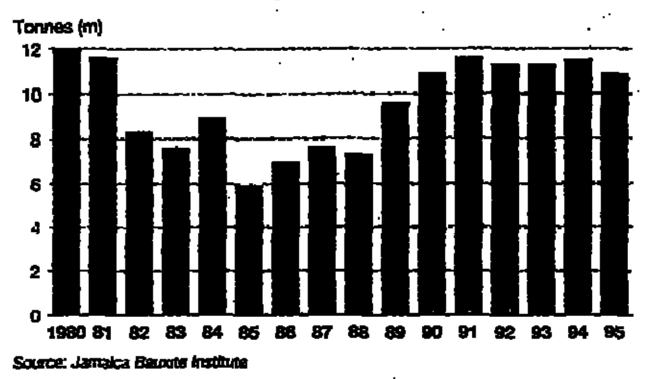
The Alumina Partners refinery, which produces 1.45m tonnes a year, plans to expand to 2m tonnes. Two plants owned by Alcan of Canada, with a combined capacity of 1.1m tonnes a year, are projected to add another 600,000 tonnes. Jamalco, jointly owned by the Jamaican government and the Aluminum Company of America, will increase production from 800,000 tonnes a year to 1.2m tonnes.

Larger plants will provide the scale of operations required to increase labour productivity, says Mr Miller. The Alumina Partners' refinery will employ the same number of workers after its capacity has been increased to 2m tonnes.

However Mr Miller adds that there is a lack of stimulus for investment: "Investors are waiting to see how stable the climate in Jamaica is going to be. *If there are frequent strikes, they will not be willing to commit themselves.* There must be some stability."

The test of the industry's stability will come in 10 weeks with the start of a new round of wage negotiations. "These negotiations will be less competitive than those of last year," says Mr Brown. "We are sensitive to the concerns of investors in the industry."

Jamaica's bauxite production



Source: Jamaica Bauxite Institute

Stockbrokers evolve to keep pace with mining companies

By Kenneth Gooding

Stockbroking companies which follow the mining industry are developing global ventures in order to keep up with changes in the sector, where a relatively few big mining groups, operating worldwide, are increasingly dominating the business.

Flemings, the investment bank, followed the trend this week by launching its "global mining group", a three-way initiative involving Ord Minnett, its 50-per-cent-owned Australian broking associate, Fleming Martin, a 50-50 joint venture between Flemings and Martin & Co in South Africa, and the bank itself.

Fleming Martin was ranked first in mining research last year in a survey by the Financial Mail in South Africa, while Ord Minnett was ranked first for total research in the Australian market by both the Institutional Investor and the Extel and Greenwich surveys.

Mr William Garrett, chairman of Robert Fleming Securities, said the initiative would assist clients by providing them with "the chance to assess the impact of global trends on investment opportunities in the mining sector".

These sentiments were also expressed by Mr Murray Wilson, the London-based vice-president of RBC Dominion Securities' corporate finance global mining operations, when his group recently absorbed almost all of Hambros Equities UK's mining team. Clients were looking for "a seamless global analysis of the mining industry", he said.

The acquisition of the Hambros team complemented RBCDS's strong North American presence by adding Hambros's coverage of Australia and South Africa.

RBCDS, owned by one of Canada's biggest banks, has also extended its South African coverage by linking with SMK Securities, a South African firm that is sponsoring broker on the Johannesburg stock exchange for more than 60 companies – some of which are involved in mining.

RBCDS and SMK will swap research and work together but no financial or shareholding links have been established between them. Mr Louis Geldenhuyes, SMK's managing director, said the two would be *able to take advantage of* increasing demand for cross-border mergers and acquisitions.

MARKET REPORT

Copper leads LME upturn

London Metal Exchange prices staged a recovery yesterday sparked by a sharp rise in copper. Investment funds which had sold copper short needed to cover their positions.

Nickel, which earlier touched a six-week low of US$7,700 a tonne, also rallied as copper rose. Analysts are split about the outlook for base metals. "While a short-covering rally is possible, we remain negative about price prospects because of weak *physical offtake, particularly* in Europe," Macquarie Equities said.

However Rudolf Wolff said that economic growth may be *picking up in the US* and money coming out of the stock and bond markets was seeking a new home. "If a small amount moves into metals it could quickly make up for the lack of consumer interest. If prices then start moving higher, consumers may also start buying," Wolff added.

Gold moved above $400 a troy ounce to close in London at $400.50 an ounce. Analysts said there was considerable *technical resistance at $402.*

Palladium recovered after Wednesday's fall and closed $1.70 up at $138 an ounce.

Tighter wheat stocks predicted

By Deborah Hargreaves

World wheat stocks are likely to be even tighter than expected this year according to the latest report from the International Grains Council, which estimated that stocks would be 88m tonnes by mid year.

The council reduced its stock estimate by 2m tonnes from last month's figure because of increased consumption in China and Pakistan. Wheat stocks remain at their lowest *level for 20 years.*

But the council also increased its estimate for last year's output in Russia by 2m tonnes, taking 1995 wheat production to 533m tonnes. The outlook is for a larger crop this year with the council increasing its forecast for world production to 558m tonnes from 553m tonnes as a result of higher estimates for the European Union, China and India.

The council pointed to lower than expected imports of wheat from Russia and noted that the country's production is expected to recover from last year's crop, which was *depleted by drought. However* the Interfax news agency said yesterday that Russian food output this year and next will not be enough to meet its needs. Russia is trying to cut imports of grains because of a lack of hard currency.

The council said it expected coarse grain stocks – which include barley – to be depressed at 87m tonnes this year compared with 117m tonnes last year.

The council pointed to an expected recovery in the maize harvest in the US, which accounts for 84 per cent of world trade. It noted figures *from the US Department of* Agriculture which forecast an increase to 239m tonnes from 187m tonnes last year.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1577-78	1608-09
Previous	1572-73	1603-04
High/low	1570	1615/1602
AM Official	1570-71	1603.5-04
Kerb close		1612-13
Open int.	208,245	
Total daily turnover	49,386	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1350-60	1387-90
Previous	1345-55	1380-85
High/low		1390/1380
AM Official	1342-45	1380-81
Kerb close		1385-90
Open int.	4,701	
Total daily turnover	2,466	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	772-73	767-68
Previous	762-63	757.5-58
High/low	763	773/748
AM Official	762-63	757-58
Kerb close		764-765
Open int.	36,694	
Total daily turnover	8,629	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7715-25	7820-25
Previous	7650-60	7760-70
High/low	7615/7610	7870/7690
AM Official	7610-15	7720-25
Kerb close		7820-25
Open int.	40,113	
Total daily turnover	15,057	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6060-90	6160-65
Previous	6105-15	6175-80
High/low		6160/6120
AM Official	6070-80	6140-45
Kerb close		6165-65
Open int.	16,516	
Total daily turnover	4,545	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1036-37	1057-58
Previous	1023-24	1044-45
High/low	1033	1059/1046
AM Official	1033-34	1052.5-53.5
Kerb close		1053-54
Open int.	77,419	
Total daily turnover	28,489	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2549-52	2509-10
Previous	2527-23	2486-87
High/low	2529	2517/2485
AM Official	2531-32	2491-92
Kerb close		2513-14
Open int.	167,436	
Total daily turnover	69,890	

■ LME AM Official £/$ rate: 1.5320

LME Closing £/$ rate: 1.5311

Spot: 1.5323 3 mths: 1.5295 6 mths: 1.5269 9 mths: 1.5241

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	116.75	+2.20	117.00	114.40	2,685	8,813
Apr	115.90	+2.45	116.20	115.40	34	1,636
May	115.20	+2.55	115.50	112.60	4,236	18,409
Jun	113.90	+2.30	-	-	12	826
Jul	112.50	+1.80	113.10	111.00	213	4,097
Sep	110.50	+1.90	111.25	110.50	101	2,506
Total					7,348	42,896

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

	$ price	£ equiv	SFr equiv
Gold(Troy oz)			
Close	400.20-400.70		
Opening	400.00-400.40		
Morning fix	400.35	261.21	478.82
Afternoon fix	400.65	261.95	480.88
Day's High	401.50-401.90		
Day's Low	399.90-400.30		
Previous close	397.40-397.80		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.34	6 months	3.63
2 months	4.17	12 months	3.32
3 months	3.97		

Silver Fix	p/troy oz.	US cts equiv.
Spot	360.10	552.25
3 months	365.15	558.95
6 months	369.85	564.95
1 year	378.55	578.35

Gold Coins	$ price	£ equiv.
Krugerrand	399-402	261-263
Maple Leaf	412.40-415.15	
New Sovereign	94-97	61-63

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	401.2	-0.9	403.6	401.1	38,715	108,003
Jun	404.0	-0.8	406.4	403.9	3,209	39,547
Aug	406.3	-0.7	408.3	406.1	157	11,544
Oct	408.5	-0.7	408.7	408.6	639	3,979
Dec	410.9	-0.7	413.2	410.1	309	12,823
Feb	413.1	-0.6	414.8	414.9	28	4,764
Total					43,689	228,724

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	414.2	+0.6	415.6	413.6	3,223	13,851
Jul	416.4	+0.6	418.5	416.5	152	4,833
Oct	418.7	+0.6	420.5	418.5	12	1,445
Jan	420.7	+0.6	-	-	2	284
Total					3,468	20,063

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	137.25	+0.35	138.50	137.00	723	1,305
Jun	138.75	+0.25	140.20	138.50	1,842	6,384
Sep	140.00	+0.25	141.50	141.50	3	108
Dec	141.25	+0.25	143.00	143.00	4	78
Total					2,572	7,864

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	549.7	+1.4	554.0	548.0	22,205	11,806
May	554.5	+1.9	559.5	554.0	29,416	50,475
Jul	559.6	+1.9	564.8	559.0	3,295	13,253
Sep	564.1	+1.0	569.0	565.0	428	10,845
Dec	570.7	+1.0	574.0	570.0	228	7,224
Mar	577.3	+1.1	-	-	202	2,558
Total					55,734	98,170

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	19.58	+0.29	19.68	19.21	47,324	87,868
May	18.75	+0.21	18.75	18.47	27,083	58,780
Jun	18.24	+0.15	18.25	18.04	12,471	41,807
Jul	17.85	+0.09	17.87	17.76	4,590	35,608
Aug	17.65	+0.05	17.65	17.55	2,834	17,710
Sep	17.43	+0.04	17.46	17.42	4,941	17,447
Total					107,736	403,623

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	17.88	-	17.95	17.66	9,893	50,742
May	17.11	+0.12	17.14	16.77	6,289	33,733
Jun	16.68	+0.02	16.72	16.59	2,370	27,830
Jul	16.46	-0.02	16.42	16.28	1,389	20,578
Aug	16.26	-0.05	16.21	16.05	1,186	7,425
Sep	16.08	-0.01	16.09	15.95	690	10,676
Total					21,672	168,973

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	61.75	+2.07	61.80	59.25	21,215	6,086
Apr	54.10	+0.85	54.15	53.00	18,505	27,783
May	50.50	+0.52	50.50	49.85	3,882	12,785
Jun	48.95	+0.43	48.95	48.40	2,887	12,055
Jul	48.45	+0.25	48.50	48.00	1,228	8,688
Aug	48.50	-	48.80	48.60	1,363	5,699
Total					58,082	89,987

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	173.00	+1.50	174.00	171.50	10,424	20,600
Apr	160.75	+1.25	161.00	158.75	9,160	15,536
May	155.00	+1.75	155.00	153.25	3,057	7,103
Jun	151.75	+1.25	151.75	150.25	1,063	7,011
Jul	150.50	+1.25	150.50	149.25	365	4,904
Aug	150.75	+1.25	150.50	149.50	365	2,548
Total					24,746	67,914

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	2.262	-0.024	2.338	2.270	7,313	25,580
May	2.134	-0.015	2.170	2.125	1,448	18,811
Jun	2.033	-0.018	2.060	2.031	818	14,822
Jul	1.980	-0.018	1.990	1.980	604	13,423
Aug	1.950	-0.016	1.965	1.940	403	11,580
Sep	1.925	-0.015	1.925	1.915	545	9,226
Total					12,728	146,493

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	58.40	-0.06	58.65	55.95	10,095	5,126
Apr	59.40	+0.25	60.30	59.70	[illegible]	[illegible]
May	59.25	+0.57	59.30	58.70	4,204	15,667
Jun	57.90	+0.40	57.95	57.60	1,432	8,060
Jul	56.05	+0.35	56.10	55.60	469	4,085
Aug	55.40	+0.35	55.50	54.50	357	3,145
Total					31,661	64,093

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	116.75	-1.15	117.50	116.90	54	349
May	118.60	-1.65	120.00	118.80	333	3,658
Jul	120.80	-1.70	121.75	121.00	73	548
Sep	110.15	-0.70	110.50	110.20	23	205
Nov	111.45	-0.75	111.85	111.50	27	1,400
Jan	113.00	-0.60	113.40	-	62	227
Total					580	8,415

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	512.50	+4.50	513.00	505.00	9,883	11,877
May	498.00	+1.25	503.00	491.00	8,546	35,996
Jul	461.75	-2.25	465.00	458.25	8,772	47,848
Sep	463.00	-3.00	464.50	460.00	85	6,325
Dec	473.75	-1.75	478.00	468.50	793	6,520
Mar	473.50	-1.50	475.00	471.00	42	245
Total					29,707	101,284

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	395.00	+3.25	395.50	389.00	37,564	45,690
May	389.25	-	390.50	384.00	50,373	205,932
Jul	382.00	-0.50	383.00	376.25	18,394	118,979
Sep	330.25	-3.00	333.25	327.25	3,512	35,214
Dec	315.25	-2.50	318.25	312.50	8,545	86,135
Mar	320.25	-2.50	323.25	318.50	371	6,862
Total					119,411	563,073

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	107.50	-0.60	108.50	107.75	26	300
May	109.25	-1.60	109.75	109.75	18	496
Sep	105.90	-0.60	106.00	106.00	16	32
Nov	107.60	-0.60	108.00	108.00	80	344
Jan	109.55	-0.60	109.75	109.50	37	56
Total					221	1,267

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	735.00	-4.75	738.00	730.25	20,780	13,203
May	745.00	-5.50	750.00	740.00	32,070	71,609
Jul	754.00	-5.50	758.00	748.00	8,846	50,027
Aug	754.00	-6.25	756.00	751.00	584	5,304
Sep	742.25	-4.75	750.00	741.00	186	3,626
Nov	737.50	-4.00	746.00	735.00	7,656	50,075
Total					71,659	201,463

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	23.80	-0.21	24.14	23.78	13,778	9,674
May	24.18	-0.27	24.56	24.17	14,468	32,672
Jul	24.58	-0.29	24.82	24.57	5,286	23,022
Aug	24.75	-0.29	25.09	24.75	1,167	6,145
Sep	24.95	-0.25	25.28	24.95	716	3,395
Oct	25.15	-0.25	25.43	25.15	232	2,073
Total					36,706	86,004

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	233.6	-0.8	233.8	230.8	10,694	11,115
May	236.0	-0.3	236.5	234.4	12,570	41,492
Jul	241.5	-0.5	242.0	238.0	7,407	23,993
Aug	242.0	-	242.2	240.0	654	5,133
Sep	241.9	-0.7	242.0	239.5	346	3,075
Oct	238.1	-	237.0	234.8	272	2,202
Total					33,743	95,888

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	200.0	-	-	-	-	-
Apr	185.0	+3.0	188.0	186.0	53	870
May	195.3	+1.8	198.0	196.0	3	25
Jun	225.0	-	-	-	-	-
Nov	105.0	-	-	-	-	-
Total					58	944

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	1387	-1	-	-	-	427
Mar	1406	-2	1411	1398	52	760
Apr	1415	-5	1418	1405	21	1,536
Jul	1300	-	1304	1290	25	1,545
Oct	1336	+1	1335	1335	17	582
Jan	1348	-7	-	-	-	82
Total					157	6,602

	Close	Prev
BFI	1384	1379

FUTURES DATA

All futures data supplied by CMS.

Wool

Australian wool prices have only just managed to stay above seasonal lows this week though there are some reasons for viewing the world wool situation with a little more confidence. The New Zealand auction was dearer for a second week at about 3% higher, British wool sales at Bradford were slightly higher and the Marketing board sold forward wools at a premium. There is talk of increased buying interest by China whose partial withdrawal from the market lead to the price down of 1995/96. Retail demand in developed countries is slow but stocks and order books are declining. Australia's Eastern market indicator closed at 579 cents, down three on the week.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	887	+2	888	881	2,759	3,366
May	913	+2	913	904	2,423	27,176
Jul	938	+1	939	931	1,936	14,753
Sep	959	+1	961	953	1,705	37,681
Dec	978	+1	978	973	2,632	18,439
Mar	995	-	998	990	2,997	34,089
Total					15,132	145,271

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1252	-7	1270	1253	91	406
May	1266	-7	1283	1265	5,308	42,833
Jul	1282	-6	1303	1286	707	17,515
Sep	1314	-4	1325	1310	717	10,731
Dec	1345	-6	1358	1345	125	10,054
Mar	1372	-6	1385	1385	7	7,460
Total					8,346	93,999

■ COCOA (ICCO) (SDR's/tonne)

Feb 28	Price	Prev. day
Daily	925.87	925.05

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1975	+5	1980	1935	1,257	4,880
May	1858	+24	1872	1802	3,834	13,122
Jul	1764	+21	1783	1742	393	4,185
Sep	1751	+15	1760	1729	304	2,826
Nov	1735	+10	1724	1710	13	1,281
Jan	1715	+10	-	-	-	275
Total					5,801	26,608

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	117.80	+3.20	118.40	113.50	343	1,429
May	115.90	+2.95	117.40	112.10	5,158	16,443
Jul	114.50	+2.85	115.00	111.00	674	4,191
Sep	113.70	+2.20	114.00	110.25	146	2,863
Dec	112.05	+2.35	112.50	109.50	69	1,230
Mar	112.25	+2.50	-	-	1	407
Total					6,391	26,871

■ COFFEE (ICO) (US cents/pound)

Feb 29	Price	Prev. day
Comp. daily	103.91	105.20
15 day average	110.26	110.76

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.80	-	-	-	-	-
May	11.80	-	-	-	-	-
Jul	11.80	-	-	-	-	-
Total					-	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	377.6	-4.7	382.5	375.0	1,107	14,214
Aug	357.6	-4.5	362.1	356.0	849	6,782
Oct	320.1	-4.2	324.1	318.5	190	4,264
Dec	309.6	-4.7	312.8	311.0	35	824
Mar	307.0	-2.4	309.3	307.6	43	685
May	304.5	-1.3	306.6	304.0	30	511
Total					2,280	29,718

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	12.53	-0.63	13.15	12.50	12,546	8,336
May	11.60	-0.39	11.90	11.58	18,877	67,477
Jul	10.82	-0.23	10.97	10.70	6,550	34,643
Oct	10.48	-0.14	10.55	10.36	1,475	26,647
Mar	10.22	-0.10	10.27	10.17	501	14,180
May	10.12	-0.10	10.18	10.17	157	3,353
Total					40,205	155,706

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	82.19	-0.50	83.45	82.10	139	519
May	83.20	-0.63	84.50	83.10	3,213	23,282
Jul	83.88	-0.39	84.95	83.80	763	11,634
Oct	80.85	-0.25	81.60	80.85	438	2,327
Dec	79.85	-0.34	80.15	79.50	2,262	16,228
Mar	80.50	-0.50	80.85	80.70	586	1,544
Total					6,887	58,282

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	127.45	+0.85	127.50	125.80	1,249	2,045
May	127.25	-	127.45	125.75	1,498	11,443
Jul	126.70	+0.60	126.90	125.75	350	2,517
Sep	125.60	+0.65	125.80	125.00	44	1,899
Nov	123.75	-0.75	121.75	120.75	3	632
Jan	120.25	-1.60	121.25	120.25	8	2,367
Total					3,237	21,041

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Feb 29	Feb 28	month ago	year ago
2134.6	2137.3	2185.2	2348.7

■ CRB Futures (Base: 1967=100)

Feb 28	Feb 27	month ago	year ago
248.85	249.26	247.53	233.47

■ GSCI Spot (Base: 1970=100)

Feb 28	Feb 27	month ago	year ago
197.87	199.22	190.68	177.11

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	63.925	-0.725	64.450	63.800	5,893	33,898
Jun	63.175	-0.225	63.475	63.025	5,141	22,112
Aug	62.325	-0.350	62.750	62.300	1,773	11,064
Oct	63.025	-0.200	63.175	62.950	608	9,728
Dec	62.025	-0.250	62.225	62.025	287	5,419
Feb	62.050	-0.200	62.300	62.050	16	2,760
Total					13,738	84,781

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	48.550	+0.500	48.600	47.800	4,037	12,645
Jun	53.725	+0.650	53.800	52.900	1,900	10,831
Jul	51.775	+0.175	51.850	51.300	315	2,921
Aug	48.675	+0.325	48.800	48.100	233	3,667
Oct	45.825	+0.225	45.850	45.450	84	2,658
Dec	46.700	-	46.900	46.500	104	1,577
Total					6,742	34,669

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Mar	63.500	+2.000	63.500	61.900	1,200	2,420
May	64.200	+2.000	64.200	62.600	2,040	5,060
Jul	62.100	+1.475	62.100	60.550	195	1,504
Aug	58.500	+1.300	58.850	57.400	38	344
Feb	65.400	-0.200	65.600	65.400	3	3
Mar	65.400	-0.200	-	65.400	3	3
Total					3,486	9,462

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	May	Jul	May	Jul
1500	121	144	12	24
1600	55	81	44	59
1700	18	40	106	115
■ COPPER (Grade A) LME	May	Jul	May	Jul
2400	137	120	18	54
2500	71	70	51	101
2600	30	37	109	166
■ COFFEE LCE	May	Jul	May	Jul
1850	106	147	98	203
1900	85	130	127	236
1950	68	115	160	271
■ COCOA LCE	May	Jul	May	Jul
875	47	81	8	18
900	31	65	19	27
925	19	50	31	37
■ BRENT CRUDE IPE	Apr	May	Apr	May
1650	-	-	-	-
1700	88	72	12	61
1750	58	47	32	-

LONDON SPOT MARKETS

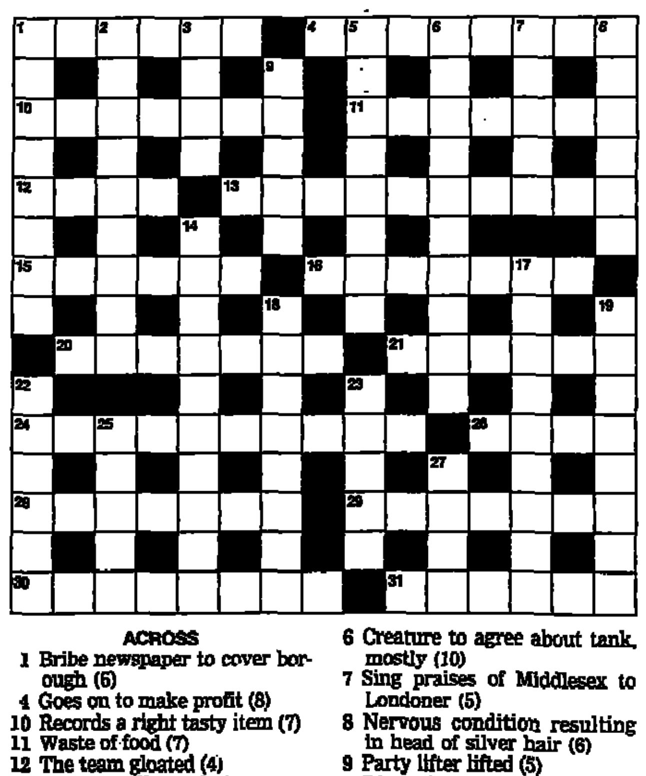
■ CRUDE OIL FOB (per barrel/Mar)		+or-
Dubai	$18.31-6.42w	+0.18
Brent Blend (dated)	$18.78-8.82	-0.02
Brent Blend (Apr)	$17.81-7.82	+0.13
W.T.I.	$19.52-9.54w	+0.28
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$186-187	
Gas Oil	$180-183	-8.5
Heavy Fuel Oil	$102-104	+2
Naphtha	$169-171	-2
Jet fuel	$211-213	+1
Diesel	$190-192	-2
Petroleum Argus. Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$400.50	+2.90
Silver (per troy oz)♣	552.5c	+6.0
Platinum (per troy oz.)	$412.75	+4.75
Palladium (per troy oz.)	$137.50	
Copper	120.0c	-2.0
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.66m	
Tin (New York)	289.50c	-3.0
Cattle (live weight)†	118.70	-1.32*
Sheep (live weight)†♣	130.97	+1.15*
Pigs (live weight)†	102.27	-4.26*
Lon. day sugar (raw)	$324.1	+3.5
Lon. day sugar (wte)	$404.5	+0.5
Barley (Eng. feed)	113.5	
Maize (US No3 Yellow)	150.5z	
Wheat (US Dark North)	Unq.	
Rubber (Mar)♥	108.75p	-1.75
Rubber (Apr)♥	106.75p	-1.75
Rubber (KL RSS No1)	418.00m	-3.50
Coconut Oil (Phil)§	$732.5v	+2.5
Palm Oil (Malay.)§	$505.0	+2.5
Copra (Phil)§	462.0y	-3.0
Soyabeans (US)	211.0y	+2.0
Cotton Outlook'A' index	82.65	
Wooltops (64s Super)	438p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. q Feb y Mar z Apr. v Feb/Mar. w Mar/Apr. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♦ Sheep (Live weight prices). * Change on week. †Prices are for previous week.

JOTTER PAD

CROSSWORD

No.9,007 Set by DOGBERRY



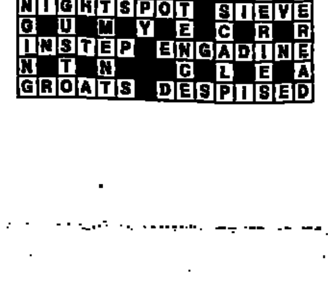
ACROSS

1 Bribe newspaper to cover borough (6)
4 Goes on to make profit (8)
10 Records a right tasty item (7)
11 Waste of food (7)
12 The team gloated (4)
13 Graves, suffering lesion, takes short cut (10)
15 What festers round the edge of the heater (6)
16 Gossip about wearing footwear (7)
20 One in ten men may be distinguished (7)
21 Aid recipient gets pub snack thrown in (6)
24 Slang for "a man of the mountains" (10)
26 New Northern Light? (4)
28 Artisan holding theologian to be small fry (7)
29 Peculiar-sounding beast with armour plating (7)
30 Skin problems admitted to be on the rise (8)
31 Humble oriental called back round (6)

DOWN

1 Turner, perhaps, beginning to spring a leak outside (8)
2 Source of disease etc, turning up in element (9)
3 Storyteller about to get the bird (4)
5 Judge Rhodesian leader by law of separate colours (7)
6 Creature to agree about tank, mostly (10)
7 Sing praises of Middlesex to Londoner (5)
8 Nervous condition resulting in head of silver hair (6)
9 Party lifter lifted (5)
14 Disc spinners come back from behind (10)
17 Mass heartless composer set in stone (9)
18 Firebrand not born to produce radiation (8)
19 He's two steps down the line with thousands at stake (8)
22 Put paid to spirit (6)
23 Equal contest (5)
25 Kicked up fuss in Holland at junction (5)
27 Building a fortune (4)

Solution 9,006



Yields rise as rate hopes fade

By Samer Iskandar in London and Lisa Bransten in New York

Sentiment was gloomy early yesterday on European markets. Yields headed higher when traders realised that the French and German central banks would not satisfy their wish to see lower official interest rates.

Analysts, however, remained optimistic on most markets, feeling there was scope for more German and French rate cuts, due to high and rising unemployment and little chance of improvement in the near future.

OATs and bunds were supported in the afternoon by a stronger US Treasury market, following the release of a lower than expected Chicago Purchasing Managers' index. While this positive mood proved short-lived in the US, it nonetheless lasted long enough to sustain markets off their lows through the European afternoon.

■ The yield on the benchmark 30-year Treasury bond rose through 6.5 per cent in volatile trading early yesterday as uncertainty about the strength of the economy continued to send prices lower across the maturity spectrum.

That was the first time since September 28 that the long bond yield has held above 6.5 per cent. Economic data released yesterday was mixed, which accounted for some of the market's choppiness. Bonds sunk near the beginning of the session after the Labour department reported that the number of people filing first time claims for unemployment benefits fell by 23,000.

At mid-morning, however, bonds regained their footing on news of weakness in the Chicago Association of Purchasing Management's index of business activity. That index –

GOVERNMENT BONDS

which is seen as harbinger of the National Association of Purchasing Management figure due out today – fell by 6 points to a new four-year low of 44.9.

But the market's recovery proved brief and by midday, the long bond was off ¾ at 93⅛ to yield 6.525, while at the short end of the maturity spectrum the two-year note was off ¼ at 99⅞ to yield 5.426 per cent.

Mr Woody Jay, head of global government trading at Lehman Brothers, said the Chicago numbers caught some investors off guard, but that the overall tone of the market remained bearish.

"The economy is better than we thought three weeks ago," he said. "The market had been aggressively priced for more ease and now we're repricing."

■ German bonds drifted lower when the Bundesbank disappointed traders who were expecting a cut in the discount or Lombard rates. The March 10-year bund future listed on Liffe closed at 97.05, down 0.21. Sentiment however remained bullish, as the market closed safely above its lows. Analysts were confident the bund contract was well supported around 96.65-96.75, a technical level that should not be breached easily. One institutional bond investor is convinced that, "unless you feel that European monetary union is never going to happen, German bonds now offer good value with low risk". He finds long maturities "particularly attractive, given the steepness of the yield curve".

■ French government bonds traded erratically, falling early in the session when the central bank failed to fulfil expectations of a rate cut. The March contract of Matif's 10-year future closed at 120.86, down 0.08, after reaching an intraday low of 120.54. In the cash market, the yield on the benchmark 7¼ per cent OAT due 2006 rose 3 basis points to 6.68 per cent, and the spread over 10-year bunds widened by 2 basis points to 28.

"Fundamentals remain bullish for the short end of the yield curve, which would benefit from rate cuts by the central bank," said Ms Yassamine Ravai, a fund manager at Credit Lyonnais Asset Management in Paris. "Longer maturities, however, are more dependent on the state of public finances." This could lead to further steepening of the French yield curve with investors await future measures by the government of Mr Alain Juppé, the French prime minister, to rein in public deficits.

■ UK gilts continued to perform weakly as the market struggled to absorb the remaining paper from Wednesday's poorly-bid £3bn auction. Liffe's March 10-year gilt contract closed at 106$\frac{7}{16}$, down ¾. But analysts seemed to remain optimistic. While the yield curve had steepened to 32 basis points between 10 and 20-year maturities, compared to 27 before the auction, Mr Andrew Roberts at UBS Limited felt it did "not have much further to go".

"The market is trading at the bottom of a range and is well supported at these levels," said Mr Simon Briscoe at Nikko Europe.

He predicted that any significant move above 8 per cent in the yield on 10-year gilts would trigger buying by domestic institutions. Given the inflation outlook of around 2-2½ per cent, Mr Briscoe believes that investors would seize the opportunity to lock in real yields close to 6 per cent. Last night the benchmark 7½ per cent gilt due 2006 was yielding 8.03 per cent.

■ Spanish bonds suffered from profit-taking, prior to next Sunday's general election. The March futures contract on 10-year Bonos settled at 95.95, down 0.45. But traders did not seem to panic. "This a normal, healthy correction following recent gains," said a bond trader at a large French bank. Meanwhile, the 10-year spread of Bonos over bunds continued to tighten, to 323 basis points, down from 335.

BSES issue revives Indian GDR sector

By Antonia Sharpe

The market in Indian global depositary receipts sprang into life this week when BSES, India's largest private-sector power company, raised $125m through a GDR offering.

BSES's issue, the first Indian GDR of 1996, breaks an eight-month dry spell for the market which has been through a "boom and bust" experience over the past two years.

In 1994, India was the most active issuer of GDRs, with 39 offerings which raised more than $3bn. But issuance slumped in 1995 to just three offerings totalling less than $300m, mainly as a result of the Mexican peso crisis which turned international investors away from emerging markets. Mr Roddy Sale, head of capital markets at Jardine Fleming in India, the bank which arranged the BSES offering, said international investors had placed orders worth $900m but that $125m was the maximum allowed by the Indian finance ministry.

Strong demand meant that BSES was able to price the GDRs, which represent three BSES shares each, at $14.40 each or a premium of 3.57 per cent to the local share price. Jardine Fleming said BSES was the first to price an issue at a premium to the local market since October 1994.

BSES's offering is the first of several issues likely to come to market before the Indian elections in April.

Larsen & Toubro, India's biggest private-sector construction and engineering conglomerate, and SAIL, India's steel authority, are in the process of launching GDR offerings of more than $100m each. Bankers say there is a healthy number of deals in the pipeline which are set to emerge once the elections are over.

Midland Bank deal best received of sterling trio

By Conner Middelmann in London and Raymond Colitt in Caracas

Three sterling issues hit a quiet eurobond market yesterday, of which a £150m issue of perpetual, subordinated, step-up bonds for Midland Bank, callable after 10 years, was the most successful.

The launch yield spread of 115 basis points over gilts narrowed to 113 basis points as investors snapped up the high-yielding paper. The deal was fully sold by the time the syndicate broke, said lead HSBC.

A £200m floating-rate note issue for the Northern Rock Building Society, tightly priced at an all-in cost of 8 basis points over Libor, saw good demand from UK institutions with open lines to the borrower, according to lead UBS. Another floater came from Italy's IMI Bank, which issued £125m of bonds at an all-in cost of 16 over Libor. Both traded close to full-fees near the close.

Elsewhere, Venezuela's finance minister, Mr Luis Raul Matos Azocar, on Wednesday said the Venezuelan government was considering placing $200m of debt securities in the

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Italian market and $500m of bonds in the US market. A DM750m seven-year issue, for which a mandate was signed earlier this week, is expected to yield around 480-500 basis points over German government bonds.

● Standard & Poor's, the rating agency, has placed ratings of Compagnie Financière de Paribas, Banque Paribas and related entities on CreditWatch with negative implications. CFP has a short-term rating of A-1 and Banque Paribas' senior unsecured debt rating stands at A. S&P said the move reflected the falling profitability of Banque Paribas and the continuing impact of the fall in the French commercial property market on the group as a whole.

S&P also affirmed its BB rating on Mexico's long-term foreign currency obligations, including Brady bonds, and its BBB+/A-2 ratings on Mexico's long- and short-term peso-denominated obligations, though the outlook remains negative.

Elsewhere, Moody's assigned long-term ratings of triple-A to several public-sector-backed bonds and mortgage-backed bonds issued by Rheinhyp (Rheinische Hypothekenbank).

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Alusuisse-Lonza Fin§(a)	230	2.00	99.96	Apr 2001	2.50	-	CS First Boston/Goldman
D-MARKS							
LB Sachsen‡	300	(b)	100.14	Mar 2001	0.20	-	JP Morgan
YEN							
J-Cars Corp‡	25bn	(c)	100.00R	Mar 2001	0.375R	-	Goldman Sachs
J-Cars Corp II#(d)	8bn	2.61	100.00	Mar 2001	0.375	-	Daiwa Europe
J-Cars Corp II#	8bn	2.75	100.00	Mar 2001	0.375	-	Daiwa Europe
J-Cars Corp II	9bn	2.87	100.00	Mar 2001	0.375	-	Daiwa Europe
SWISS FRANCS							
National Australia Bnk★	100	3.25	101.85	Apr 1999	1.25	-	UBS
De NIB(e)	100	3.25	101.65	Dec 1999	STD	-	Credit Suisse
STERLING							
Northern Rock Bldg Soc‡	200	(f)	99.89R	Apr 2001	0.02R	-	UBS
Midland Bank(g)	150	9.25	99.756R	undated	0.63R	+115(7%-06)	HSBC Mkts
IMI Bank(G Caymen)‡	125	(h)	99.732R	Mar 2001	0.15R	-	HSBC Mkts
FRENCH FRANCS							
Volvo Group Finance	1bn	7.00	99.19R	Apr 2006	0.43R	+45(7¼%-06)	Credit Cmmrcl/Crdt Lyns
LUXEMBOURG FRANCS							
Cerinvest	2bn	5.00(j)	102.65	Apr 2001	1.75	-	BCEE/Cerabank
Cregem Intl Bank(l)	2bn	5.75	102.40	Jun 2001	1.75	-	BIL
CANADIAN DOLLARS							
Toyota Credit Canada	100	7.00	99.95R	Apr 2001	1.875	+5(7½%-01)	CIBC Wood Gundy
PESETAS							
Kingdom of Sweden(s)	10bn	9.41	102.05	Dec 2026	2.25	-	Banco Bilbao Vizcaya
MARKKAS							
Nordic Investment Bank★	100	7.03	100.00R	Mar 2001	1.875R	-	CIBC Wood Gundy

Final terms, non-callable unless stated. Yield spread (over relevant gvmt bond) at launch supplied by lead manager. ★Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 10% Greenshoe. 4yrs hard non-call. Conv. price:Sfr1.138.FX:1.197Sfr/$. b) 3-mth Libor +15bp. Capped at 8%. c) 1-mth Libor +10bp. Payable 13th of each month. Issue backed by Auto Receivables. d) Three tranche backed byAuto Receivers. e) Fungible with SFr125m. Plus 50 days accrued f) 3-mth Libor +5bp.Callable from Apr01. g) Callable at par after 10yrs, then every 5yrs. If not exercised, coupon will reset to +215bp over prevailing 5yr guilt. h) 3-mth Libor +6.25bp. j) Until 3rd year, then steps-up to 7½% pa. l) Long 1st coupon. s) Short 1st coupon.

Alusuisse and Ashanti convertibles in demand

By Antonia Sharpe

Convertible bond issues yesterday from Alusuisse-Lonza of Switzerland and Ashanti Goldfields of Ghana went some way to correcting the chronic supply/demand imbalance in the market caused by a scarcity of new issues and a rash of redemptions.

Fierce investor appetite for new paper meant that both issues were significantly oversubscribed, increasing the likelihood that over-allotment options would be exercised. Alusuisse's $230m five-year bond has a coupon of 2 per cent and a conversion premium of 19.5 per cent.

Ashanti's $220m seven-year bond, the first international convertible from sub-Saharan Africa, has a coupon of 5½ per cent and a conversion premium of 17.4 per cent. Proceeds from both issues will be used to finance acquisitions. Investors prefer convertible bond issues to be linked to specific projects to limit earnings dilution.

Fees on both transactions were 2½ per cent. This is likely to have calmed bankers who had feared that the 2 per cent fee on a recent sterling convertible for BAA, the UK airports group, would set a precedent.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	108.0230	-	8.78	8.62	8.10
Austria		6.125	02/06	95.5400	−0.180	6.61	6.54	6.15
Belgium		7.000	05/06	100.9400	−0.220	6.86	6.84	6.32
Canada *		8.750	12/05	108.2200	−0.390	7.54	7.46	7.02
Denmark		8.000	03/06	102.5600	−0.100	7.62	7.58	6.93
France	BTAN	7.000	10/00	105.0000	−0.130	5.64	5.79	5.36
	OAT	7.250	03/06	104.0400	−0.230	6.68	6.71	6.31
Germany Bund		6.000	01/06	97.0300	−0.370	6.41	6.36	5.83
Ireland		8.000	08/06	100.5500	−0.450	7.91	7.81	7.26
Italy		10.500	09/05	101.0000	−0.540	10.33†	10.47	9.97
Japan	No 129	6.400	03/00	115.8040	−0.010	2.15	2.07	1.75
	No 182	3.000	09/05	97.2240	+0.240	3.39	3.15	2.98
Netherlands		6.000	01/06	97.1400	−0.220	6.40	6.35	5.81
Portugal		11.875	02/05	113.4700	+0.060	9.57	9.72	9.19
Spain		10.150	01/06	102.9100	+0.600	9.66	9.84	9.35
Sweden		6.000	02/05	82.9430	−0.580	8.84	8.91	8.23
UK Gilts		8.000	12/00	102–28	−11/32	7.27	7.13	6.85
		7.500	12/06	96–11	−21/32	8.01	7.86	7.32
		9.000	10/08	106–22	−26/32	8.14	7.98	7.48
US Treasury *		5.625	02/06	96–05	−24/32	6.15	5.92	5.57
		6.000	02/26	93–11	−27/32	6.51	6.35	6.01
ECU (French Govt)		7.500	04/05	101.6700	−0.370	7.24	7.20	6.68

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	5.05	Two year	5.38
Prime rate	8¼	Two month	5.06	Three year	5.51
Broker loan rate	7	Three month	5.00	Five year	5.73
Fed.funds	5½	Six month	5.04	10-year	6.11
Fed.funds at intervention	-	One year	5.16	30-year	6.49

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	121.14	120.86	−0.08	121.28	120.56	190,839	149,021
Jun	121.20	120.88	−0.10	121.24	120.60	4,687	24,071
Sep	120.04	119.72	−0.10	120.04	120.04	2	2,411

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
119	1.86	2.70	-	-	0.81	-
120	0.86	-	-	-	1.13	-
121	-	1.39	-	0.14	1.54	-
122	-	0.96	-	1.14	-	-
123	-	0.60	-	-	-	-

Est. vol. total, Calls 22,307 Puts 17,089. Previous day's open int., Calls 215,557 Puts 211,750.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	97.30	97.05	−0.21	97.51	96.65	234433	123392
Jun	96.50	96.25	−0.24	96.72	95.86	28524	150514

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Apr	Calls May	Calls Jun	Calls Sep	Puts Apr	Puts May	Puts Jun	Puts Sep
9600	0.84	1.13	1.35	1.32	0.59	0.88	1.10	1.90
9650	0.57	0.86	1.08	1.10	0.82	1.11	1.33	2.18
9700	0.37	0.65	0.84	0.90	1.12	1.40	1.59	2.48

Est. vol. total, Calls 31656 Puts 17265. Previous day's open int., Calls 234430 Puts 146131

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	110.90	110.00	-0.62	111.15	109.56	58187	35527
Jun	110.50	109.59	-0.62	110.80	109.19	9792	20877

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
10950	2.10	2.76	2.01	3.08
11000	1.84	2.53	2.25	3.35
11050	1.60	2.32	2.51	3.64

Est. vol. total, Calls 2705 Puts 2794. Previous day's open int., Calls 45829 Puts 40815

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	96.64	95.95	−0.43	96.65	95.70	75,044	42,070
Jun	95.50	95.64	+0.44	95.75	95.35	516	5,761

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	107-09	106-14	-0-24	107-11	106-06	95087	83729
Jun	106-16	105-22	-0-26	106-20	105-15	27921	71617

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Apr	Calls May	Calls Jun	Calls Sep	Puts Apr	Puts May	Puts Jun	Puts Sep
105	1-21	1-50	2-07	2-19	0-41	1-06	1-27	2-23
106	0-50	1-16	1-37	1-54	1-06	1-36	1-57	2-58
107	0-26	0-53	1-09	1-29	1-46	2-09	2-29	3-33

Est. vol. total, Calls 4408 Puts 1590. Previous day's open int., Calls 29205 Puts 24171

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	89.52	89.44	+0.02	89.66	89.06	3,109	7,458
Jun	88.76	88.92	−0.42	88.76	88.76	275	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	114–25	114–08	−0–26	115–05	113–29	461,852	232,701
Jun	114–09	113–25	−0–25	114–22	113–14	101,026	163,645
Sep	113–26	113–04	−0–18	113–27	112–30	2,974	13,176

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	118.86	-	-	118.86	118.73	1227	0
Jun	117.40	-	-	117.44	117.28	3322	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thu Feb 29	Day's change %	Wed Feb 28	Accrued interest	xd adj. ytd		Low coupon yield Feb 29	Feb 28	Yr. ago	Medium coupon yield Feb 29	Feb 28	Yr. ago	High coupon yield Feb 29	Feb 28	Yr. ago
1 Up to 5 years (23)	122.04	−0.09	122.15	2.04	1.58	5 yrs	7.35	7.28	8.51	7.39	7.32	8.54	7.48	7.41	8.70
2 5-15 years (20)	146.30	−0.50	147.04	2.77	1.21	15 yrs	8.20	8.11	8.42	8.22	8.13	8.54	8.33	8.25	8.75
3 Over 15 years (9)	158.92	−0.90	160.49	2.04	2.52	20 yrs	8.29	8.21	8.40	8.30	8.21	8.54	8.40	8.31	8.67
4 Irredeemables (6)	182.81	−0.77	184.23	3.65	0.00	Irred.†	8.35	8.28	8.46						
5 All stocks (58)	141.46	−0.42	142.07	2.40	1.57										

Index-linked							Inflation 5% Feb 29	Feb 28	Yr. ago	Inflation 10% Feb 29	Feb 28	Yr. ago
6 Up to 5 years (1)	196.39	−0.24	196.85	3.06	0.00	Up to 5 yrs	2.87	2.74	3.66	1.58	1.45	2.30
7 Over 5 years (11)	183.72	−0.53	184.70	1.06	0.63	Over 5 yrs	3.77	3.73	3.88	3.57	3.52	3.68
8 All stocks (12)	183.88	−0.52	184.84	1.10	0.62							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Feb 29	Feb 28	Feb 27	Feb 26	Feb 23	Yr ago	High*	Low*
Govt. Secs. (UK)	93.05	93.31	93.13	93.08	93.65	91.43	96.34	90.22
Fixed interest	111.82	111.91	112.15	112.28	112.68	109.94	115.23	108.77

*for 1995/96. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Feb 28	Feb 27	Feb 26	Feb 23	Feb 22
Gilt Edged bargains	108.5	93.7	120.5	83.1	104.6
5-day average	102.1	102.4	103.7	98.8	99.2

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas 15¼pc 1996‡‡		15.01	6.27	101$\frac{5}{8}$	−$\frac{1}{32}$	108¾	101$\frac{5}{8}$
Exch 13¼pc 1996‡‡		13.06	6.17	101$\frac{15}{32}$	−$\frac{1}{32}$	106$\frac{3}{4}$	101$\frac{15}{32}$
Conversion 10pc 1996		9.74	6.05	102$\frac{21}{32}$	—	104$\frac{15}{32}$	102$\frac{21}{32}$
Treas 13¼pc 1997‡‡		12.47	6.06	106$\frac{1}{32}$	—	109$\frac{31}{32}$	106$\frac{1}{32}$
Exch 10½pc 1997		10.08	6.13	104⅛	+$\frac{1}{32}$	105$\frac{15}{16}$	104$\frac{1}{32}$
[illegible]							

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Treas 8½pc 2005‡‡		8.21	7.97	103$\frac{9}{16}$	−⅝	108$\frac{31}{32}$	97⅝
Treas 7½pc 2006‡‡		7.78	8.00	96$\frac{13}{32}$	−$\frac{13}{16}$	101$\frac{13}{16}$	94$\frac{13}{32}$
Treas 7¾pc 2006‡‡		7.92	8.06	97$\frac{15}{16}$xd	−$\frac{13}{16}$	103¼	32⅛
Treas 8pc 2002-6‡‡		8.04	8.08	99½	−⅞	104$\frac{15}{32}$	93¾
Treas 11¾pc 2003-7		9.75	7.83	120½	−⅞	125$\frac{1}{16}$	113$\frac{13}{16}$
[illegible]							

	Notes	Yield (1)	Yield (2)	Price £	+ or –	52 week High	52 week Low
Index-Linked	(b)						
2pc '96	(67.9)	-	0.86	216$\frac{13}{16}$	—	216⅞	204$\frac{3}{8}$
4⅝pc '98‡‡	(135.6)	1.60	2.88	111⅝	−⅛	113⅜	107¼
2½pc '01	(78.3)	3.08	3.60	176¾	−$\frac{13}{16}$	180$\frac{1}{16}$	166$\frac{13}{16}$
2½pc '03	(78.8)	3.27	3.66	172$\frac{9}{16}$	−$\frac{11}{16}$	176$\frac{3}{16}$	162$\frac{11}{16}$
4⅜pc '04‡‡	(135.6)	3.32	3.68	113$\frac{5}{16}$	−$\frac{11}{16}$	116$\frac{13}{16}$	108$\frac{13}{16}$
[illegible]							

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on February 29

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	100⅛	100⅜	−⅝	6.47
ABN Amro Bank 7¼ 05	1000	103⅞	104⅛	−⅛	6.79
African Dev Bk 7¾ 23	500	100⅞	101⅜	−⅝	7.30
Alberta Province 7⅜ 98	1000	104½	104¾	−⅛	5.75
Asian Dev Bank 6¼ 05	750	98¾	98⅞	−⅝	6.53
Sweden 8 97	2500	105⅜	105½	+⅛	3.99
United Kingdom 7¼ 97	5500	105⅛	105¼		3.87
Volkswagen Intl Fin 7 03	1000	102¼	102⅜		6.59
World Bank 0 15	2000	28⅞	29⅛	+⅛	6.47
World Bank 5⅞ 03	3000	98¼	98⅜		6.16
Abbey Natl Treasury 8 03 £	1000	98⅞	99	−¼	8.21
Alliance Leics 11⅜ 97 £	100	105¼	105½		6.60
British Land 8⅞ 23 £	150	88¾	89¼	−⅞	10.34
Denmark 6½ 98 £	800	99½	99⅝		6.95
EIB 8 03 £	1000	99¾	100	−⅝	8.04
Halifax 10⅜ 97 £	100	103⅝	103⅞	−⅛	6.55
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CURRENCIES AND MONEY

MARKETS REPORT

Dollar rises after German rates are left unchanged

By Graham Bowley

The dollar strengthened on the foreign exchanges yesterday despite the Bundesbank's decision to leave interest rates unchanged.

The US currency was underpinned by Bank of Japan support and by continued bearishness towards the D-Mark, analysts said.

The South African rand weakened after further rumours that President Nelson Mandela was unwell and on renewed speculation that adjustments to exchange controls are to be made soon.

The pound did better against the D-Mark, helped by the stronger dollar. Data showed the UK's trade gap with the rest of the world was virtually unchanged between November and December but the deficit with countries outside the EU widened in January.

The Italian lira, Swedish krona and French franc failed to extend recent gains against the D-Mark.

Sterling finished against the D-Mark at DM2.25 from DM2.2433 at the previous close. It closed weaker against the dollar at $1.5309 from $1.5351.

The dollar finished in Europe at Y105.17 from Y104.39, and at DM1.4697 from DM1.4614.

The Italian lira closed unchanged at L1,059 against the D-Mark. The French franc was also unchanged at FFr3.428. The Swedish krona finished at SKr4.591 from SKr4.588 against the D-Mark.

■ The Bundesbank cooled expectations of further interest rate cuts when it left its discount and Lombard rates unchanged at its regular council meeting and fixed the repo rate at 3.3 per cent for the next two weeks.

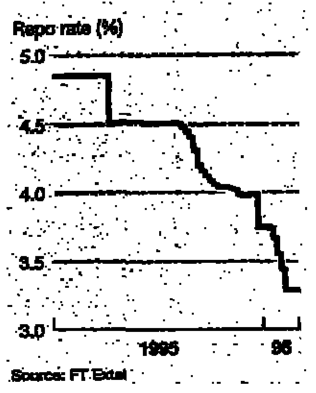
Despite the move, the dollar found support from investors. Analysts said the US currency has moved back into favour after good trade data on Wednesday and after a recent firming of US interest rate expectations. Futures markets suggest that a less severe easing of US interest rates is now anticipated, analysts said.

But the dollar's better performance was also a reflection of increased bearishness towards the D-Mark, analysts said.

"There is a fundamental bearishness towards the D-Mark to do with the belief that interest rates are set to fall but also people are nervous that the economy is stumbling," said Mr Adrian Cunningham at UBS in London.

Ms Ros Lifton, bond analyst at Daiwa in London, said that she was convinced German interest rates would fall soon although this expectation was not yet reflected in the money markets – the June euromark contract was discounting an interest rate of 3.3 per cent, the same as the current repo rate, she pointed out.

Germany



Source: FT Extel

■ Institutional investors around the world have raised their exposure to the dollar to the highest level for almost three years, according to the latest Merrill Lynch investor survey.

The survey of almost 100 large institutional investors pointed to a large switch of investment funds out of the D-Mark into dollars over the last three months.

Mr Joe Prendergast, currency strategist at Merrill Lynch in London, said: "This result explains why there has been limited success in pushing the dollar to the upside."

In such an overweight market there was a risk that any bad news could have a large negative impact on the dollar, Merrill warned.

Investors are also still *extremely underweight* in yen, reflecting investors' tendency to borrow in yen but to invest in higher yielding currencies such as the dollar, the survey showed.

■ The Czech central bank again intervened to support the koruna following Wednesday's decision to widen the exchange rate bands within which the currency moves.

"It is clear the authorities want to keep the currency near the central rate but it is also clear that *a lot of foreign investors are nervous*," said Mr Andrew Kenningham, an analyst at Merrill Lynch in London. He said there might be renewed downward pressure on the currency after elections in May if the current account continued to deteriorate.

Weakness in the South African rand resumed after a few days of stability. Mr Graham Bell, analyst at Standard Bank in London, said the rand would continue to trade in a range of *around R3.75 to R3.90 against* the dollar but that it would weaken later this year when exchange control changes were introduced.

■ Pound in New York

Feb 29	— Latest —	— Prev. close —
£ spot	1.5330	1.5330
1 mth	1.5319	1.5316
3 mth	1.5300	1.5300
1 yr	1.5208	1.5203

■ OTHER CURRENCIES

Feb 29	£	$
Czech Rp	41.7743 - 41.8618	27.2919 - 27.3418
Hungary	217.329 - 217.462	141.980 - 142.030
Iran	4593.50 - 4602.10	3000.00 - 3000.00
Kuwait	0.4559 - 0.4573	0.2985 - 0.2987
Poland	3.9155 - 3.9196	2.5580 - 2.5600
Russia	7395.81 - 7402.45	4832.00 - 4836.00
U.A.E.	5.6210 - 5.6240	3.6722 - 3.6722

POUND SPOT FORWARD AGAINST THE POUND

Feb 29		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.8242	+0.0479	184 - 300	15.8472	15.7541	15.7942	2.3	15.7117	2.8	-	-	108.0
Belgium	(BFr)	46.2582	+0.2077	455 - 729	46.3200	46.1550	46.1542	2.7	45.9542	2.6	45.0642	2.5	108.2
Denmark	(DKr)	8.6944	+0.0286	905 - 982	8.7042	8.6813	8.6824	1.6	8.6623	1.5	8.5582	1.6	109.1
Finland	(FM)	6.9581	+0.0259	514 - 647	6.9840	6.9050	6.9537	0.8	6.9456	0.7	6.9279	0.4	84.5
France	(FFr)	7.7131	+0.0229	109 - 152	7.7242	7.6923	7.7009	1.9	7.6819	1.6	7.6024	1.4	109.5
Germany	(DM)	2.2500	+0.0067	492 - 507	2.2545	2.2458	2.245	2.8	2.2351	2.7	2.1929	2.5	110.4
Greece	(Dr)	368.893	+1.156	654 - 133	370.744	366.220	-	-	-	-	-	-	68.2
Ireland	(I£)	0.9718	-	713 - 724	0.9737	0.9710	0.9709	1.2	0.9695	1.0	0.9655	0.7	97.5
Italy	(L)	2383.37	+8.34	177 - 496	2385.81	2372.45	2390.82	-3.8	2406.67	-3.9	2465.42	-3.4	73.3
Luxembourg	(LFr)	46.2582	+0.2077	455 - 729	46.3200	46.1550	46.1542	2.7	45.9542	2.6	45.0642	2.5	108.2
Netherlands	(Fl)	2.5191	+0.0086	180 - 202	2.5262	2.5153	2.515	2.9	2.5008	2.9	2.4526	2.6	108.4
Norway	(NKr)	9.7990	+0.01	901 - 018	9.8164	9.7420	9.785	1.0	9.7745	0.9	9.7159	0.8	98.0
Portugal	(Es)	233.592	+0.81	462 - 681	233.784	231.730	233.887	-2.2	234.892	-2.3	-	-	95.23
Spain	(Pta)	189.403	+0.477	332 - 474	189.537	188.850	189.823	-2.7	190.678	-2.7	193.758	-2.3	82.0
Sweden	(SKr)	10.3337	+0.0405	255 - 418	10.3543	10.2943	10.3351	-0.2	10.3391	-0.2	10.3455	-0.1	87.1
Switzerland	(SFr)	1.8348	+0.0086	338 - 358	1.8411	1.8318	1.8282	4.3	1.8149	4.3	1.7632	3.9	113.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.5
Ecu	-	1.2170	+0.0048	165 - 175	1.2179	1.2142	1.2156	1.4	1.2129	1.3	1.201	1.3	-
SDR†	-	1.044100	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5307	-0.0041	304 - 309	1.5327	1.5295	-	-	-	-	-	-	-
Brazil	(R$)	1.5076	-0.0016	070 - 081	1.5081	1.5032	-	-	-	-	-	-	-
Canada	(C$)	2.1001	-0.013	994 - 007	2.1126	2.0958	2.0984	0.9	2.0957	0.8	2.0858	0.7	83.7
Mexico	(New Peso)	11.6650	+0.0787	486 - 823	11.6823	11.5841	-	-	-	-	-	-	-
USA	($)	1.5309	-0.0042	307 - 311	1.5330	1.5287	1.5298	0.9	1.5279	0.8	1.5182	0.8	95.4
Pacific/Middle East/Africa													
Australia	(A$)	2.0021	-0.0107	012 - 030	2.0104	1.9993	2.004	-1.1	2.0066	-1.3	2.0321	-1.5	89.2
Hong Kong	(HK$)	11.8358	-0.0328	338 - 377	11.8516	11.8186	11.8254	1.1	11.813	0.8	11.768	0.6	-
India	(Rs)	53.0840	-0.0861	092 - 586	54.1400	52.8092	-	-	-	-	-	-	-
Israel	(Shk)	4.7465	-0.0225	420 - 509	4.7916	4.7420	-	-	-	-	-	-	-
Japan	(Y)	161.005	+0.761	936 - 072	161.100	160.070	160.24	5.7	158.75	5.6	152.855	5.1	139.0
Malaysia	(M$)	3.9020	-0.0068	007 - 032	3.9064	3.8974	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2790	-0.0101	724 - 754	2.2880	2.2711	2.2777	-2.0	2.2909	-2.0	2.3247	-2.2	105.1
Philippines	(Peso)	40.0407	-0.1236	972 - 842	40.0842	39.9972	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7416	-0.0158	404 - 427	5.7492	5.7337	-	-	-	-	-	-	-
Singapore	(S$)	2.1619	-0.0057	612 - 625	2.1681	2.1585	-	-	-	-	-	-	-
South Africa	(R)	5.9246	+0.0899	162 - 330	5.9330	5.8595	-	-	-	-	-	-	-
South Korea	(Won)	1198.01	-2.94	747 - 855	1200.94	1196.67	-	-	-	-	-	-	-
Taiwan	(T$)	42.0957	-0.1118	897 - 037	42.1529	42.0377	-	-	-	-	-	-	-
Thailand	(Bt)	38.5940	-0.0799	736 - 143	38.6270	38.5390	-	-	-	-	-	-	-

† Rates for Feb 28 Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 29		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.3386	+0.0592	341 - 390	10.3630	10.3100	10.3206	1.9	10.2891	1.8	10.1686	1.6	105.9
Belgium	(BFr)	30.2170	+0.217	120 - 220	30.2820	30.1000	30.172	1.8	30.08	1.8	29.747	1.6	107.9
Denmark	(DKr)	5.6793	+0.034	775 - 810	5.6940	5.6656	5.6759	0.7	5.6703	0.6	5.6668	-0.1	108.3
Finland	(FM)	4.5451	+0.0291	413 - 488	4.5630	4.5046	4.5406	1.2	4.5321	1.1	4.5156	0.6	83.7
France	(FFr)	5.0383	+0.0295	375 - 390	5.0505	5.0250	5.0342	1.0	5.0288	0.8	5.0143	0.5	108.9
Germany	(DM)	1.4697	+0.0083	694 - 700	1.4739	1.4655	1.4676	1.7	1.463	1.8	1.4484	1.6	109.8
Greece	(Dr)	240.965	+1.405	840 - 090	242.030	240.210	242.54	-7.8	245.79	-8.0	260.465	-8.1	65.6
Ireland	(I£)	1.5753	-0.0042	746 - 760	1.5780	1.5697	1.5756	-0.2	1.5758	-0.1	1.5696	0.3	-
Italy	(L)	1556.84	+9.64	600 - 768	1560.25	1548.92	1563.19	-4.9	1574.94	-4.7	1625.84	-4.4	73.7
Luxembourg	(LFr)	30.2170	+0.217	120 - 220	30.2820	30.1000	30.165	2.1	30.077	1.9	29.772	1.5	107.9
Netherlands	(Fl)	1.6455	+0.0108	450 - 460	1.6500	1.6415	1.6424	2.2	1.636	2.3	1.6136	1.9	107.8
Norway	(NKr)	6.3968	+0.0237	958 - 018	6.4141	6.3590	6.3965	0.4	6.3983	0.7	6.3713	0.4	98.0
Portugal	(Es)	152.585	+0.83	520 - 610	152.890	151.230	152.84	-2.9	153.71	-3.0	157.315	-3.1	95.2
Spain	(Pta)	123.730	+0.645	690 - 750	123.960	123.380	124.115	-3.8	124.85	-3.7	126.34	-3.7	81.6
Sweden	(SKr)	6.7501	+0.0445	458 - 545	6.7649	6.6973	6.7671	-3.0	6.7966	-2.8	6.9341	-2.7	86.8
Switzerland	(SFr)	1.1985	+0.0075	980 - 990	1.2038	1.1956	1.1949	3.6	1.188	3.5	1.1642	2.9	112.9
UK	(£)	1.5309	-0.0042	307 - 311	1.5330	1.5287	1.5298	0.9	1.5279	0.8	1.5182	0.8	82.9
Ecu	-	1.2580	-0.0084	576 - 583	1.2627	1.2583	1.2583	-0.3	1.2587	-0.2	1.2593	-0.1	-
SDR†	-	0.68860	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9996	-	-	-	-	-	-	-
Brazil	(R$)	0.9848	+0.0016	845 - 850	0.9850	0.9832	-	-	-	-	-	-	-
Canada	(C$)	1.3718	-0.0048	715 - 720	1.3790	1.3704	1.372	-0.1	1.372	-0.1	1.3771	-0.4	82.6
Mexico	(New Peso)	7.6200	+0.0725	100 - 300	7.6400	7.6100	7.6223	-0.4	7.6254	-0.3	7.6303	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.2
Pacific/Middle East/Africa													
Australia	(A$)	1.3077	-0.0034	074 - 082	1.3082	1.3074	1.3097	-1.8	1.3132	-1.7	1.3319	-1.9	90.0
Hong Kong	(HK$)	7.7313	-0.0004	310 - 315	7.7315	7.7310	7.732	-0.1	7.7338	-0.1	7.7608	-0.4	-
India	(Rs)	34.6750	-0.49	000 - 500	35.3300	34.5000	34.825	-5.2	35.13	-5.2	36.8	-5.6	-
Israel	(Shk)	3.1004	+0.0083	979 - 029	3.1273	3.0949	-	-	-	-	-	-	-
Japan	(Y)	105.170	+0.78	140 - 200	105.330	104.550	104.735	5.0	103.935	4.7	100.865	4.1	139.2
Malaysia	(M$)	2.5488	+0.0026	483 - 493	2.5515	2.5455	2.5487	-0.4	2.5568	-1.1	2.5793	-1.2	-
New Zealand	(NZ$)	1.4852	-0.0078	845 - 861	1.4881	1.4846	1.4883	-2.5	1.4941	-2.4	1.5187	-2.3	-
Philippines	(Peso)	26.1550	-0.01	300 - 800	26.1800	26.1300	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	502 - 507	3.7507	3.7502	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4122	+0.0001	119 - 124	1.4145	1.4095	1.4086	3.0	1.4028	2.7	1.3772	2.5	-
South Africa	(R)	3.8700	+0.056	850 - 750	3.8750	3.8550	3.8988	-8.9	3.9503	-8.3	4.1735	-7.8	-
South Korea	(Won)	782.550	+0.2	300 - 800	783.700	782.100	785.55	-4.6	789.05	-3.3	807.55	-3.2	-
Taiwan	(T$)	27.4980	+0.0015	970 - 990	27.4990	27.4970	27.518	-0.9	27.558	-0.9	-	-	-
Thailand	(Bt)	25.2100	+0.02	000 - 200	25.2200	25.1930	25.3067	-4.7	25.5125	-4.8	26.395	-4.7	-

† SDR rate per $ for Feb 28. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Feb 28: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

February 29	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3¼	3¼	3⅜	3¼	7.00	3.00	-
week ago	3¼	3¼	3⅜	3⅜	3⅜	7.00	3.00	-
France	4⅞	4⅜	4¼	4⅛	4⅛	3.80	-	5.60
week ago	4¾	4⅜	4⅜	4¼	4⅛	3.80	-	5.60
Germany	3½	3⅜	3⅜	3¼	3¼	5.00	3.00	3.30
week ago	3⅜	3⅜	3⅜	3⅜	3⅜	5.00	3.00	3.30
Ireland	5⅜	5⅜	5⅜	5⅜	[illegible]	-	-	6.25
week ago	5⅜	5⅛	5¾	5⅜	[illegible]	-	-	6.25
Italy	9⅞	9⅝	9⅜	9⅜	9⅝	-	9.00	8.72
week ago	10⅛	9⅝	9⅝	9⅝	9⅝	-	9.00	8.72
Netherlands	3⅜	3⅜	3⅛	3⅛	3⅛	-	3.00	3.30
week ago	3¼	3¼	3⅛	3⅜	3⅛	-	3.00	3.30
Switzerland	1⅛	1⅝	1⅝	1⅝	1⅝	5.00	1.50	-
week ago	1⅛	1⅛	1⅝	1⅜	2	5.00	1.50	-
US	5⅜	5⅛	5⅛	5⅛	5⅜	-	5.00	-
week ago	5⅜	5⅛	5⅛	5⅜	5⅛	-	5.00	-
Japan	⅜	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	⅜	[illegible]	[illegible]	[illegible]	1	-	0.50	-
■ $ LIBOR FT London Interbank Fixing	-	5¼	5¼	5⅛	5⅛	-	-	-
week ago	-	5⅜	5⅛	5⅛	5⅛	-	-	-
US Dollar CDs	-	4.88	4.91	4.94	5.02	-	-	-
week ago	-	4.88	4.98	5.00	5.01	-	-	-
ECU Linked Ds	-	4⅞	4⅞	4⅞	4⅞	-	-	-
week ago	-	4⅞	4⅞	4⅞	4⅞	-	-	-
SDR Linked Ds	-	3⅞	3⅞	3⅞	3⅞	-	-	-
week ago	-	3⅞	3⅞	3⅞	3⅞	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.

Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Feb 29	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.62	95.56	-0.02	95.64	95.54	25,496	50,207
Jun	95.62	95.57	-0.02	95.66	95.54	18,716	57,966
Sep	95.57	95.52	-0.03	95.62	95.50	5,983	47,064

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.67	96.66	-0.01	96.70	96.62	34035	152638
Jun	96.74	96.71	-0.02	96.77	96.67	32990	185732
Sep	96.59	96.57	-0.01	96.64	96.50	43279	193221
Dec	96.32	96.28	-0.01	96.38	96.18	32363	161864

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	90.35	90.22	-0.08	90.38	90.18	8109	36108
Jun	90.88	90.70	-0.14	90.93	90.66	14508	33431
Sep	91.23	91.06	-0.10	91.25	91.06	1586	18549
Dec	91.28	91.17	-0.08	91.28	91.14	1081	12783

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.33	98.28	-0.02	98.33	98.27	3423	19766
Jun	98.25	98.19	-0.03	98.26	98.16	5864	20227
Sep	98.07	98.01	-0.04	98.09	97.98	2205	12222
Dec	97.77	97.71	-0.04	97.80	97.71	2195	8847

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.34	95.32	-0.01	95.36	95.29	1111	7154
Jun	95.43	95.40	-	95.47	95.37	807	5139
Sep	95.35	95.29	-0.03	95.38	95.30	81	3075
Dec	95.16	95.07	-0.03	95.16	95.10	12	3130

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
9000	0.29	0.89	1.29	0.07	0.19	0.21
9025	0.10	0.70	1.10	0.13	0.25	0.27
9050	0.05	0.53	0.92	0.33	0.33	0.34

Est. vol. total, Calls 600 Puts 2. Previous day's open int., Calls 28548 Puts 20560

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 29		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.79	16.67	4.864	2.101	5151	5.445	21.18	505.0	409.4	22.33	3.967	2.162	4.540	3.310	348.0	2.631
Denmark	(DKr)	53.21	10	8.872	2.588	1.118	2741	2.897	11.27	268.7	217.9	11.88	2.111	1.150	2.415	1.761	185.2	1.400
France	(FFr)	59.98	11.27	10	2.917	1.260	3090	3.266	12.70	302.9	245.6	13.39	2.379	1.297	2.723	1.985	208.7	1.578
Germany	(DM)	20.56	3.864	3.428	1	0.432	1059	1.120	4.354	103.8	84.18	4.591	0.816	0.444	0.933	0.680	71.56	0.541
Ireland	(I£)	47.59	8.944	7.935	2.315	1	2452	2.592	10.08	240.3	194.9	10.63	1.888	1.029	2.160	1.575	165.6	1.252
Italy	(L)	1.941	0.365	0.324	0.094	0.041	100.	0.106	0.411	9.803	7.948	0.433	0.077	0.042	0.088	0.064	6.756	0.051
Netherlands	(Fl)	18.36	3.451	3.062	0.893	0.386	946.0	1	3.889	92.74	75.19	4.101	0.728	0.397	0.834	0.608	63.91	0.483
Norway	(NKr)	47.22	8.875	7.874	2.297	0.992	2433	2.571	10	238.5	193.3	10.55	1.873	1.021	2.144	1.563	164.4	1.242
Portugal	(Es)	19.80	3.722	3.302	0.963	0.416	1020	1.078	4.193	100.	81.06	4.422	0.786	0.428	0.899	0.655	68.92	0.521
Spain	(Pta)	24.42	4.590	4.072	1.188	0.513	1258	1.330	5.172	123.3	100.	5.454	0.969	0.528	1.109	0.808	85.01	0.643
Sweden	(SKr)	44.78	8.416	7.467	2.178	0.941	2307	2.439	9.483	226.1	183.3	10	1.776	0.968	2.033	1.482	155.9	1.178
Switzerland	(SFr)	25.21	4.738	4.203	1.226	0.530	1299	1.373	5.338	127.3	103.2	5.629	1	0.545	1.144	0.834	87.74	0.663
UK	(£)	46.26	8.694	7.713	2.250	0.972	2383	2.519	9.796	233.6	189.4	10.33	1.835	1	2.100	1.531	161.0	1.217
Canada	(C$)	22.03	4.140	3.673	1.071	0.463	1135	1.200	4.665	111.2	90.19	4.919	0.874	0.476	1	0.729	76.67	0.580
US	($)	30.22	5.679	5.038	1.470	0.635	1556	1.645	6.398	152.6	123.7	6.747	1.199	0.653	1.372	1	105.2	0.795
Japan	(Y)	28.73	5.400	4.791	1.398	0.604	1480	1.565	6.084	145.1	117.6	6.416	1.140	0.621	1.304	0.951	100.	0.756
Ecu		38.01	7.144	6.338	1.849	0.799	1958	2.070	8.049	191.9	155.6	8.488	1.508	0.822	1.726	1.258	132.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.6823	0.6808	-0.0017	0.6808	0.6789	46,276	70,241
Jun	0.6848	0.6839	-0.0087	0.6839	0.6821	2,504	9,178
Sep	0.6860	0.6856	-0.0092	0.6869	0.6860	171	1,599

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8380	0.8348	-0.0132	0.8346	0.8316	16,527	35,364
Jun	0.8460	0.8419	-0.0037	0.8419	0.8388	443	2,890
Sep	0.8600	0.8600	-	0.8600	0.8600	107	340

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.9588	0.9533	-0.0077	0.9588	0.9513	17,639	64,574
Jun	0.9701	0.9636	-0.0084	0.9701	0.9626	952	5,766
Sep	-	0.9798	-	0.9817	0.9798	97	885

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.5344	1.5284	-0.0114	1.5302	1.5278	12,132	40,980
Jun	1.5280	1.5250	-0.0116	1.5270	1.5240	180	10,580
Sep	-	1.5360	-	-	1.5230	3	9

UK INTEREST RATES

LONDON MONEY RATES

Feb 29	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7½ - 6⅛	6$\frac{7}{16}$ - 6$\frac{5}{16}$	6$\frac{3}{16}$ - 6$\frac{3}{16}$	6$\frac{3}{16}$ - 6$\frac{1}{16}$	6⅛ - 6	6¼ - 6⅛
Sterling CDs	-	-	6¼ - 6$\frac{3}{16}$	6⅛ - 6$\frac{1}{16}$	6$\frac{1}{16}$ - 6	6⅛ - 6$\frac{1}{16}$
Treasury Bills	-	-	6⅛ - 6$\frac{1}{16}$	5$\frac{31}{32}$ - 5$\frac{31}{32}$	-	-
Bank Bills	-	-	6⅛ - 6$\frac{1}{16}$	5$\frac{31}{32}$ - 5$\frac{29}{32}$	5$\frac{15}{16}$ - 5⅞	-
Local authority deps.	6$\frac{7}{16}$ - 6$\frac{3}{16}$	6$\frac{5}{16}$ - 6$\frac{3}{16}$	6¼ - 6$\frac{3}{16}$	6⅛ - 6$\frac{1}{16}$	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6$\frac{1}{16}$ - 5$\frac{15}{16}$
Discount Market deps	7½ - 6¼	6$\frac{5}{16}$ - 6$\frac{3}{16}$	-	-	-	-

UK clearing bank base lending rate 6¼ per cent from January 18, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.

Ave. tender rate of discount 5.9280pc. ECGD fixed rate Stg. Export Finance. Make up day Feb 29, 1996. Agreed rate for period *Mar 26, 1996 to Apr 25, 1996*, Schemes II & III 7.48pc. Reference rate for period Feb 1, 1996 to Feb 29, 1996, Schemes IV & V 6.239pc. Finance House Base Rate 6.5pc from March 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.92	93.91	-	93.92	93.89	7996	63510
Jun	94.01	93.99	-	94.04	93.93	25882	75678
Sep	93.91	93.87	-0.02	93.94	93.82	13091	55779
Dec	93.66	93.58	-0.05	93.68	93.54	9214	43202
Mar	93.33	93.25	-0.05	93.34	93.19	2656	31200

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
9375	0.19	0.34	0.42	0.03	0.10	0.30
9400	0.03	0.18	0.28	0.12	0.19	0.41
9425	0	0.08	0.17	0.34	0.34	0.55

Est. vol. total, Calls 3086 Puts 2690. Previous day's open int., Calls 160055 Puts 158915

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	Royal Bk of Scotland	6.25
Allied Trust Bank	6.25	Exeter Bank Limited	7.25	●Singer & Friedlander	6.25
AIB Bank	6.25	Financial & Gen Bank	7.00	●Smith & Williamson Secs.	6.25
●Henry Ansbacher	6.25	●Robert Fleming & Co	6.25	TSB	6.25
Bank of Baroda	6.25	Girobank	6.25	United Bank of Kuwait	6.25
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	Unity Trust Bank Plc	6.25
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	Western Trust	6.25
Bank of Ireland	6.25	●Hambros Bank	6.25	Whiteaway Laidlaw	6.25
Bank of India	6.25	Heritable & Gen Inv Bk.	6.25	Yorkshire Bank	6.25
Bank of Scotland	6.25	●Hill Samuel	6.25		
Barclays Bank	6.25	C. Hoare & Co	6.25		
Brit Bk of Mid East	6.25	Hongkong & Shanghai	6.25		
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.25		
Citibank NA	6.25	●Leopold Joseph & Sons	6.25		
Clydesdale Bank	6.25	Lloyds Bank	6.25		
The Co-operative Bank	6.25	Meghraj Bank Ltd	6.25		
Coutts & Co	6.25	Midland Bank	6.25		
Credit Lyonnais	6.25	• Mount Credit Corp	6.25		
Cyprus Popular Bank	6.25	NatWestminster	6.25		
		●Rea Brothers	6.25		

● Members of London Investment Banking Association
• In administration

EMS EUROPEAN CURRENCY UNIT RATES

Feb 29	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	159.289	+0.119	-1.97	5.17	14
Netherlands	2.15214	2.11914	+0.00236	-1.53	4.71	11
Belgium	39.3960	38.9058	+0.0449	-1.24	4.40	9
Austria	13.4383	13.3132	+0.0175	-0.93	4.07	7
Germany	1.91007	1.89262	+0.00232	-0.90	4.04	9
Portugal	195.792	196.235	-0.094	0.23	2.87	-2
Denmark	7.28580	7.31207	+0.00635	0.36	2.73	-2
France	6.40608	6.48505	+2e-05	1.23	1.84	-10
Ireland	0.792214	0.816769	-0.002376	3.10	0.00	-21
NON ERM MEMBERS						
Greece	292.867	310.077	-0.097	5.88	-2.62	-
Italy	2106.15	1996.72	-7.94	-5.10	8.64	-
UK	0.786652	0.840431	-0.002775	6.84	-3.50	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates *for a currency, and the maximum permitted percentage deviation of the currency's market rate from its* Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Mar	Apr	May	PUTS Mar	Apr	May
1.500	3.23	3.48	3.88	0.08	0.40	0.80
1.510	2.35	2.70	3.19	0.16	0.55	1.11
1.520	1.53	2.08	2.56	0.25	0.87	1.49
1.530	0.87	1.48	2.07	0.59	1.28	1.94
1.540	0.42	1.03	1.60	1.07	1.83	2.51
1.550	0.16	0.67	1.22	1.80	2.51	3.04

Previous day's vol., Calls N/A Puts N/A. Prev. day's open int., Calls N/A Puts N/A

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.70	94.71	+0.01	94.72	94.69	55,673	329,243
Jun	94.76	94.80	+0.03	94.89	94.72	170,876	394,231
Sep	94.75	94.77	+0.01	94.94	94.67	198,294	336,357

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.18	95.20	-	95.20	95.18	490	5,138
Jun	95.20	95.22	-	95.32	95.15	1,998	7,231
Sep	95.19	95.14	-0.18	95.34	95.12	81	1,394

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Mar	Apr	May	Jun	PUTS Mar	Apr	May	Jun
9650	0.18	0.24	0.27	0.29	0.02	0.03	0.06	0.08
9675	0.02	0.08	0.11	0.13	0.11	0.12	0.15	0.17
9700	0	0.02	0.03	0.05	0.34	0.31	0.32	0.34

Est. vol. total, Calls 7044 Puts 16185. Previous day's open int., Calls 391483 Puts 326387

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
9825	0.10	0.15	0.16	0.07	0.21	0.40
9850	0.02	0.06	0.08	0.24	0.37	0.57
9875	0.01	0.02	0.04	0.48	0.59	0.78

Est. vol. total, Calls 0 Puts 50. Previous day's open int., Calls 9345 Puts 4622

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	[illegible]	517	-8	[illegible]	476½	[illegible]	5.7	18.7
Bulmer (HP)	[illegible]	[illegible]	—	[illegible]	398	[illegible]	2.8	17.5
Burn St Dist	[illegible]	120	-1	[illegible]	99	71.2	5.2	25.8
Grand Met	[illegible]	[illegible]	-1	[illegible]	363½	[illegible]	4.3	18.7
Guinness	[illegible]	[illegible]	-3	[illegible]	403	[illegible]	3.8	14.2
Highland	[illegible]	[illegible]	-5	[illegible]	316	479.5	2.7	16.3
Kirin Y	[illegible]	707	[illegible]	[illegible]	621	[illegible]	0.8	29.4
Macallan-Glen	[illegible]	184	—	217	157	[illegible]	1.0	35.4
Macdon Martin A	[illegible]	[illegible]	—	680	600	57.0	2.1	77.9
Matthew Clark	[illegible]	[illegible]	+1	[illegible]	541	[illegible]	4.0	–
Merrydown	[illegible]	108	[illegible]	149	88	[illegible]	2.3	–
Seagram S	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6,147	1.3	–

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cm 2nd Prf	[illegible]	[illegible]	—	[illegible]	50½	[illegible]	19.8	–
Cater Allen	[illegible]	467	—	[illegible]	424	162.2	8.0	7.7
Close Bros	[illegible]	384	+7	384	227	[illegible]	2.8	17.0
Gerrard & Nat	[illegible]	418	—	472	395	204.0	8.7	13.5
Hambros	[illegible]	210½	-7½	225	180	372.2	4.6	–
7½pc Cv Pf		101	+1½	107½	94	138.1	9.3	–
Joseph (L)	[illegible]	450	—	483	353	23.9	5.2	15.5
King & Shaxson	[illegible]	165	—	165	85	40.9	7.3	12.0
Rea Brothers	[illegible]	60	—	67	44	29.0	2.1	24.0
Schroders	[illegible]	1270	—	1478	906½	1,917	1.4	18.1
N/V	[illegible]	1009	—	1180	823½	440.0	1.8	14.2
Singer & Fried.	[illegible]	110	—	113	81	217.1	4.2	11.4
8½pc Cv Ln 08/14		£133	—	£137	[illegible]	40.8	6.4	–
Union	[illegible]	102	—	121	70	27.1	3.7	[illegible]
Whitbread	[illegible]	[illegible]	—	[illegible]	200	[illegible]	4.8	17.3

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

LEISURE & HOTELS - Cont.

OTHER FINANCIAL - Cont.

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

AIM - Cont.

LIFE ASSURANCE

PAPER, PACKAGING & PRINTING

MEDIA

RETAILERS, FOOD

TELECOMMUNICATIONS

AMERICANS

TEXTILES & APPAREL

RETAILERS, GENERAL

PHARMACEUTICALS

CANADIANS

OTHER INVESTMENT TRUSTS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£30½	—	£34½	£29	2,036	2.6	15.8
Barlow	◆	£8¾	-⅛	£10⅜	£5⅝	1,751	1.8	◆
Gold Flds Prop R		146xd	—	170	138	15.2	6.8	7.0
NK Props.		95	—	96	85	3.32	11.4	–
SASOL	♥	687	+2	648	476	3,330	2.3	–
SA Brews		£22¾	-⅛	£26½	£16¾	6,780	1.5	32.1
Standard Bank	□	£28¾	+⅛	£32⅞	£20⅞	3,441	1.6	20.8
Tiger Oats		1159	—	1270	850	1,738	1.6	◆
Tongaat-Hulett	†	1084	—	1247	636	1,007	1.7	21.2

TOBACCO

TRANSPORT

OIL, EXPLORATION & PRODUCTION

INVESTMENT COMPANIES

PHARMACEUTICALS - Cont.

RETAILERS, GENERAL - Cont.

PROPERTY

WATER

OIL, INTEGRATED

SUPPORT SERVICES

AIM

OTHER FINANCIAL

LEISURE & HOTELS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Exel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ◆ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ☆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ◆ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Pembroke Hall, Pembroke, Bermuda

[illegible]

Prices for dealing February 29

Jupiter Tyndall (Bermuda) Ltd

[illegible]

Newport Investment Management

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

[illegible]

Sarasin Funds Mngmt (Guernsey) Ltd

PO Box 249, St Peter Port, Guernsey

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd

PO Box 255, St Peter Port, Guernsey

[illegible]

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

[illegible]

Apollo Investment Management Ltd

[illegible]

Arab Bank Fund Managers (Guernsey) Ltd

[illegible]

BZW Asset Management Guernsey Ltd

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

Guinness Flight Select Funds Plc

Europa Hse, Harcourt St, Dublin 2

[illegible]

Hambros Fund Managers (Ireland) Ltd

IntI Financial Services Ctre, Dublin 1

[illegible]

Henderson Crosthwaite Investment Co

32 St Mary at Hill, London, EC3P 3AJ

[illegible]

LGT Asset Management Ltd

[illegible]

IRELAND (REGULATED)(**)

[illegible]

Chemical Ireland Fund Administrators Ltd

[illegible]

Citi Investment Fund

[illegible]

Citizens Investment

[illegible]

Daiwa Europe Fund

[illegible]

Dragon Korea Fund

[illegible]

Dresdner Kleinwort

[illegible]

Dynamic Pacific Portfolio Fund Plc

[illegible]

East Asia Hanson Ireland

[illegible]

Egerton Capital European

[illegible]

Emerging Dynamic

[illegible]

Emerging Market Growth Fund Plc

[illegible]

F.I.T. Investment Trust

[illegible]

Falcon Market Fund

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

Ashburton Global Funds Ltd (1200)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

John Govett Management (Jersey) Ltd

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

Eagle Star - Global Assets Fund

[illegible]

Nikko Capital Management

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

هكذا من الأصل

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	Selling Price	Buying Price	+ or -	Yield Gross

Credit Investment Funds - Contd.

Murray Universal, Sicav

MCAM Asia Pacific Umbrella Fund

Nikko Asia Convertible Bond Fund

Nikko Bank (Luxembourg) S.A.

Nomura Asian Infrastructure Fd SICAV

CMI Insurance Co Ltd

Professional Investment Consultants

Royal Life International

CA Securities Investment Fund Mnmgt Ltd

CB Asset Management

CDC International

CH Fund Managers (Bermuda) Limited

Camco Investment Management Ltd

Capital International

Cathay Investment Fund Limited

Chameleon Funds Limited

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LONDON STOCK EXCHANGE

MARKET REPORT

Erratic Wall Street trends unsettle equities

By Steve Thompson, UK Stock Market Editor

Extreme volatility in Treasury bonds and stocks on Wall Street, both overnight and at the start of trading in US markets yesterday, continued to unnerve UK shares, which fell sharply before closing well above the day's lows.

Wall Street's latest bout of erratic behaviour came in the wake of a low Chicago Purchasing Management's index of 44.9, against a consensus estimate of above 50.

The news saw US Treasury bonds, which gave a disappointing performance overnight amid conflicting economic data, recover from early losses of around a full point, before easing again. Markets also reacted with disappointment as German interest rates were left unchanged after the Bundesbank meeting.

The Dow Jones Industrial Average, which triggered its circuit breakers for the sixth consecutive session overnight, initially fell away yesterday, rallied strongly and then resumed its downward trend after London closed.

The FT-SE 100 index was left nursing a 10.6 decline at 3,727.6, while the second line index, the FT-SE Mid 250, was never anything like as weak, eventually ending the day only 0.5 off at 4,215.0.

Once again, it was the hint of prospective takeover bids just around the corner that helped the mid-cap stocks. Trafalgar House shares climbed another 3 per cent after reports that Kvaerner, of Norway, would probably launch a bid for the troubled UK conglomerate next week. There were also suggestions that the long awaited bid for one of the few remaining regional electricity stocks was imminent.

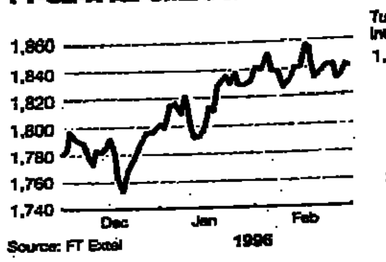
Marketmakers were at odds over the short term outlook for London. One leading trader said Wall Street's yo-yo trend in the past week or so could see investors finally lose their nerve and lock in the big profits they have built up in recent months. "If Wall Street cracks, then so does Europe, taking London with it," he added.

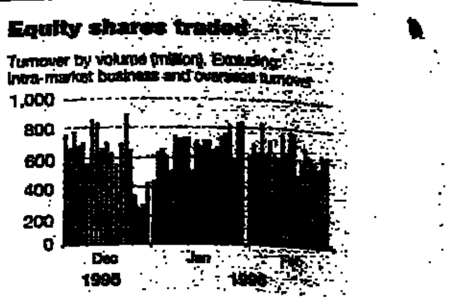
Another adopted the view that London had performed resolutely in the face of the latest turbulence across the Atlantic and was only dragged down by the extreme weakness in the futures market. "The cash wanted to go better, but was always struggling against the future," he said. He felt that London would attract solid support at 3,700 on the FT-SE 100 but would come under pressure at 3,760.

Takeover talk was again rife and Lasmo, Ladbroke and Cadbury Schweppes continued to attract the attention of speculators.

But the day's feature was undoubtedly BP, where the shares looked set to challenge their all-time high, after confirmation of the downstream deal with Mobil, of the US. Specialists said the move would bring big benefits to both participants and would leave Shell trailing in the rationalisation stakes. Burmah Castrol also suffered amid perceptions it would face sharply increased competition in the European lubricants market.

Activity held up well in the face of the Footsie's disappointing performance. Turnover at 6pm came in at 768.1m shares, with non-FT-SE 100 stocks accounting for 55 per cent of the total. Retail business on Wednesday was valued at £1.8bn.





Indices and ratios

FT-SE 100	3727.6	-10.6
FT-SE Mid 250	4215.0	-0.5
FT-SE-A 350	1864.1	-4.2
FT-SE-A All-Share	1840.77	-3.67
FT-SE-A All-Share yield	3.78	(3.78)
FT Ordinary Index	2756.4	+0.2
FT-SE-A Non Fins p/e	17.30	(17.35)
FT-SE100 Fut Mar	3721.0	-21.0
10 yr Gilt yield	7.97	(7.88)
Long gilt/equity yld ratio:	2.22	(2.20)

Best performing sectors

1	Leisure & Hotels	+1.0
2	Engineering, Vehicles	+0.6
3	Oil, Integrated	+0.5
4	Building & Cons	+0.4
5	Health Care	+0.4

Worst performing sectors

1	Household Goods	-1.3
2	Retailers, Food	-1.2
3	Oil Exploration	-1.0
4	Banks, Retail	-0.8
5	Water	-0.8

Hotel sale lifts Granada

Home entertainment and hotels company Granada Group topped the list of the market's best Footsie performers after ABN Amro Hoare Govett reiterated its buy stance on the stock.

The broker also highlighted positive comment in the trade press which suggested that there was a growing list of potential buyers of some of the leading hotels acquired after Granada won its takeover bid for Forte in January.

Those reports were boosted by yesterday's sale of the Park Lane Hotel to ITT Sheraton Corporation, of the US, in a £41.6m deal. Analysts said this put a valuation floor of £140,000 a room on a prestige London hotel.

Shares in the group have been under a cloud in recent sessions on fears that the IRA bombing campaign in London will drive down tourist traffic, thus hitting hotel earnings.

They jumped 19 to 727p, after Mr Andrew Turner at Hoare pointed to growing confidence in the Northern Ireland peace talks.

Supermarkets slip

Food retailers braced themselves for a new round of profits downgrades after brokers reduced estimates at Kwik Save yesterday.

Kleinwort Benson lowered its profits forecasts for the year to August 1996 by £10m to £95m and NatWest Securities downgraded its figure for the same period by £8m to £102m.

Analysts at Kleinwort said: "The cost of matching promotion campaigns, especially against J. Sainsbury, has had a damaging effect on Kwik Save's margins."

However, it was feared that margin pressures are continuing across the sector which cast a shadow on other retailers. While Kwik Save shares surrendered 4 to 465p, falls were also seen in Sainsbury, 5 lighter at 376p, Iceland Group, which finished 2 lighter at 147p, Argyll Group, which surrendered 6 to 295p, and Tesco, 2½ easier at 263½p.

One analyst said: "If Kwik Save is hurting, it is a sure thing that the rest are hurting too. It looks like downgrades are on the way."

BP boosted

News that BP is to merge its European fuels and lubricant operations with Mobil, of the US, sent the shares up 10½ to 539½p on turnover of 19m.

The move is expected to achieve joint savings of up to $500m in five years and put pressure on some of the other oil majors.

Mr Steve Brann of Kleinwort Benson said: "It's very good news for BP and shows management's continuous desire to drive up the rate of return."

Even SGST's Mr John Toalster, traditionally one of the analysts most negative about BP's prospects, described the decision as "a bold and adventurous move".

On the flip side, the main casualty was perceived to be Burmah Castrol, which saw its share price tumble 39 to 1051p, the biggest slide in the Footsie. There was concern that it might come under pressure from a more focused lubricants operation.

However, Burmah shares have risen very strongly over the past few weeks and a Burmah spokesman said: "We are untroubled. Our markets are about quality rather than quantity." Shell Transport fell 5½ to 844p.

Lasmo, the exploration and production company, dipped 4 to 184p in spite of revealing a return to profits with full-year figures at the top of the range of analysts' forecasts. The shares have risen 25p over the past fortnight and for some dealers the move has been too far too fast.

Hanson shares responded well to news that the initial public offering of Suburban Propane, a recently formed "master limited partnership", had been priced at $20.50 per unit. The price was in line with expectations, but analysts said recent initial offerings had slipped in price. One specialist added that the news showed Hanson's demerger plans were on track. The shares hardened 2¾ to 188¾p.

Transport leader British Airways stayed firm against the trend, adding 3½ at 509½p. However, some analysts sounded a note of caution ahead of next Tuesday's traffic figures given that February had to contend with savagely bad weather and the end of the IRA ceasefire.

Turnover in casinos and hotels operator Stakis jumped to 22m, its highest ever daily total on record, with a delayed trade from Monday's session, recorded yesterday, accounting for a large part of the volume.

A leading broker was said to have gone into the market late on Monday and acquired a large block of shares ahead of Tuesday's publication of a positive Home Office consultative paper on the gaming industry. The buyer was said to have paid 106p, well above the then prevailing market price.

The shares moved strongly ahead the following day on the positive news and a general shortage of stock, recording their highest level since 1989. They remained in demand yesterday and closed just a half-penny off at 100p.

Yorkshire Electricity jumped 12 to 754p as bid speculation returned to the sector. Dealers said the Yorkshire share register showed big buying recently by Merrill Lynch and Bear Stearns, of the US. Secondly, one US trade publication has apparently quoted the president of Southern, of the US, as pinpointing the takeover potential of both Yorkshire and Midlands, up 4 to 394p.

Zeneca bucked the trend among the pharmaceuticals leaders, rising 7 to 1257p.

Merrill Lynch argued that although Zeneca is trading at a premium to the other UK leaders, the company has a better drugs pipeline and its shares are trading at a substantial discount to US rivals.

SmithKline Beecham bounced from earlier lows after announcing a big restructuring programme in Europe. The shares, off 13 at one stage, recovered to close 5 off at 696p.

Celltech, the biotechnology group, rose 5 to 509p on positive reports about a new leukaemia drug.

Vodafone, hit lately by switch advice ahead of the flotation of rival mobile phones group Orange, plus a profits warning from equipment leader Nokia, rebounded 5 to 231½p. Book building in the Orange issue starts on Monday.

Solid results from Cowie plus news of a small bus acquisition sparked a number of perky performances among motor distributors.

Cowie led the FT-SE Mid 250 rankings with a rise of 11 to 323p in 1.1m traded. Caffyns gained 15 at 260p, Henlys put on 14 at 573p and Dixon Motors rose 13 to 185p.

Top conglomerate Tomkins came off sharply, in above average turnover, as technical worries plus a negative broker note sapped sentiment. The shares retreated 5 to 264p in turnover of 7.8m, the heaviest volume so far this year.

UBS was a touch negative in targeting Tomkins' break-up value at 254p, but the main problem for the shares was said to be suggestions that the £1.4bn purchase of Gates Rubber, of the US, could involve heavier earnings dilution than initially expected.

Trafalgar House, in bid talks with Kvaerner, of Norway, regained 1½ to 47¼p in another very strong two-way pull, with 23m shares changing hands.

MARKET REPORTERS: Peter John, Joel Kibazo, Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Feb 29	Feb 28	Feb 27	Feb 26	Feb 23	Yr ago	*High	*Low
Ordinary Share	2756.4	2756.2	2745.7	2738.9	2760.6	2312.5	2788.2	2238.3
Ord. div. yield	3.88	3.88	3.90	3.91	3.88	4.55	4.73	3.76
P/E ratio net	16.78	16.80	16.46	16.40	16.14	16.59	21.33	15.35
P/E ratio nil	16.56	16.58	16.25	16.18	15.93	16.12	22.21	15.17

*For 1995/96. Ordinary Share index since compilation: high 2788.2 18/01/96; low 49.4 26/6/40. Base Date: 1/7/35

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2755.3	2753.6	2756.8	2749.8	2750.3	2751.1	2742.0	2744.6	2753.1	2757.0	2741.8

	Feb 29	Feb 28	Feb 27	Feb 26	Feb 23	Yr ago
SEAQ bargains	31,428	32,378	31,461	34,511	31,881	20,467
Equity turnover (£m)†	-	1824.2	1886.6	1574.9	1702.3	1582.2
Equity bargains†	-	37,587	37,861	39,245	37,497	27,229
Shares traded (mil)†	-	640.0	635.0	547.2	597.2	574.6

†Excluding intra-market business and overseas turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	646	Total Highs	128	Total contracts	36,146
Total Falls	584	Total Lows	32	Calls	19,444
Same	1,567			Puts	16,702

Feb 29 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	3739.0	3721.0	-21.0	3740.0	3700.0	16377	48516
Jun	3743.0	3724.0	-20.5	3743.0	3704.0	2168	18890
Sep	-	3739.5	-21.0	-	-	0	2305

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	4209.0	-1.0	-	-	0	3006
Jun	-	4224.0	-1.0	-	-	0	590

■ FT-SE 100 INDEX OPTION (LIFFE) (*3724) £10 per full index point

	3550 C	3550 P	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P
Mar	174½	3½	127½	7	85	15½	48½	27½	22	52½	7	90	1½	139	1	189
Apr	177½	17½	137	26½	100½	40	71½	60	47	85½	28	117	18½	154½	7½	197½
May	197	32½	159½	43½	129	59½	95	78½	70½	103½	47½	132	32	166	20½	206
Jun	215½	47	177½	58	145½	74½	113	92	89½	118	65½	145	49½	178	32½	212½
Dec†			255	115			205½	154½			159½	203½			117	264½

Calls 3,675 Puts 3,913

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3525 C	3525 P	3575 C	3575 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P
Mar	199	2	150	5	104½	8½	64	18	32	36	12½	66	3	106½	1	154
Apr	231	16	188½	24	122	36	89	52½	61½	74½	39½	102	24	138	13½	175
May	215	25½	178	36	145½	49½	108½	67	81	89	58½	115½	40½	147	28½	182½
Jun	238	43			165½	58½			102	103			57½	156½		
Sept	277½	70½			207	85½			148½	132½			161	183½		

Calls 1,948 Puts 3,630 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt. paid up	Mkt. cap (£m.)	1995/96 High	1995/96 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	50.3	509	486	BZW Eq (Smids)	509	+4	-	-	-	-
-	F.P.	3.76	6½	5½	†Ballymoney	5½	+½	-	-	-	-
7.5	F.P.	14.7	8½	5¾	Clubhaus	8	-	-	-	-	11.1
-	F.P.	0.07	5¾	4¾	Clubhaus Wts	3¼		-	-	-	-
-	F.P.	12.5	90	68	†Dorsetk	67	-3	-	-	-	-
-	F.P.	12.8	15	11	Ex-Lands Props	12½		LK0.5	-	5.0	-
-	F.P.	0.19	13½	8½	Ex-Land Wts	8½		-	-	-	-
12	F.P.	50.0	18	15	†Freepages	15	-2	-	-	-	-
60	F.P.	33.6	68	62	MediaKey	62		LK0.96	-	1.9	-
-	F.P.	0.13	8	8	†Mirrm Prim Wts	8		-	-	-	-
-	F.P.	18.2	71	68	†Optical Care (S)	70	-2	-	-	-	-
-	F.P.	3.10	13	12	Ormonde	12		-	-	-	-
-	F.P.	1.13	105	100	†Revelation P'dlty	105		-	-	-	-
54	F.P.	2.82	60	50	†Self Sealing Sys	50		-	-	-	-
175	F.P.	12.8	223	188	Shire Pharms	205	+4	-	-	-	-
-	F.P.	0.57	9	6	†Skye Pharma Wts	8		-	-	-	-
180	F.P.	114.1	189	183	Streamline	184		W17.7	1.7	5.2	13.9

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Feb 29	% chg on day	Feb 27	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	2327.44	-0.4	2336.04	1730.51	1.44	-	2520.73	1686.31
■ Regional Indices								
Africa (16)	3094.33	-1.1	3130.08	2576.51	2.90	35.64	3553.86	2272.74
Australasia (5)	2662.03	+1.0	2635.07	1984.45	2.33	40.41	2927.34	1928.15
North America (12)	2061.91	-0.2	2066.58	1446.90	0.66	62.24	2186.39	1398.96

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FT - SE Actuaries Share Indices — The UK Series

	Feb 29	Day's chge%	Feb 28	Feb 27	Feb 26	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3727.6	-0.3	3738.2	3715.9	3704.2	3041.2	3.94	2.06	15.39	19.12	1497.73
FT-SE Mid 250	4215.0	----	4215.5	4198.7	4195.0	3394.1	3.49	1.74	20.62	24.97	1670.25
FT-SE Mid 250 ex Inv Trusts	4234.1	----	4233.1	4215.9	4211.2	3402.9	3.61	1.79	18.33	26.27	1679.70
FT-SE-A 350	1864.1	-0.2	1868.3	1858.0	1853.0	1517.0	3.84	2.00	16.28	9.89	1532.43
FT-SE-A 350 Higher Yield	1864.4	-0.4	1872.7	1860.4	1853.6	1540.7	4.74	1.84	14.31	8.37	1270.70
FT-SE-A 350 Lower Yield	1868.8	----	1868.6	1860.4	1857.4	1492.8	2.89	2.27	19.07	11.54	1283.84
FT-SE SmallCap	2052.77	+0.1	2050.25	2044.81	2045.59	1693.44	3.08	1.81	22.45	5.56	1664.11
FT-SE SmallCap ex Inv Trusts	2033.02	+0.2	2029.34	2023.69	2024.51	1671.88	3.28	1.90	20.04	4.89	1656.51
FT-SE-A ALL-SHARE	1840.77	-0.2	1844.44	1834.62	1830.26	1499.27	3.78	1.99	16.63	9.40	1537.22

■ FT-SE Actuaries All-Share

	Feb 29	Day's chge%	Feb 28	Feb 27	Feb 26	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3257.26	+0.3	3248.67	3218.61	3213.19	2599.50	3.97	1.51	20.84	22.56	1380.21
12 Extractive Industries(6)	4182.10	-0.5	4181.28	4199.82	4142.00	3454.88	3.81	2.39	13.70	85.48	1217.95
15 Oil, Integrated(3)	3285.72	+0.5	3277.87	3241.39	3245.60	2592.88	4.19	1.35	22.04	16.24	1428.74
16 Oil Exploration & Prod(15)	2234.47	-1.0	2257.98	2218.13	2201.82	1904.73	2.20	1.41	40.44	0.00	1326.30
20 GEN INDUSTRIALS(276)	2059.45	+0.1	2058.11	2046.95	2044.72	1791.42	4.03	1.88	16.52	2.20	1107.08
21 Building & Construction(34)	1085.25	+0.4	1081.35	1071.62	1071.27	915.36	3.72	2.02	16.56	1.16	895.09
22 Building Matls & Merchs(29)	1901.99	-0.1	1903.24	1887.92	1883.36	1667.06	3.94	2.03	15.63	0.51	844.24
23 Chemicals(23)	2524.97	+0.2	2520.04	2498.33	2488.22	2137.39	3.95	2.02	15.62	1.34	1178.46
24 Diversified Industrials(21)	1774.60	+0.3	1768.85	1763.23	1750.23	1778.31	5.56	1.48	15.22	3.32	972.09
25 Electronic & Elect Equip(38)	2351.99	-0.5	2363.01	2363.06	2378.33	1868.61	3.06	1.84	22.16	2.04	1207.74
26 Engineering(71)	2318.86	----	2316.51	2310.39	2307.62	1732.31	3.24	2.30	16.78	3.55	1390.14
27 Engineering, Vehicles(13)	2629.07	+0.6	2613.94	2617.59	2623.46	2060.33	3.90	1.26	25.47	0.23	1340.58
28 Paper, Pckg & Printing(26)	2710.29	-0.1	2714.33	2698.67	2696.53	2780.32	3.69	2.53	13.39	0.51	1111.93
29 Textiles & Apparel(19)	1506.22	+0.2	1503.77	1494.11	1495.97	1430.61	4.62	1.75	15.49	2.51	904.89
30 CONSUMER GOODS(81)	3594.56	-0.3	3606.24	3591.97	3589.65	2851.35	3.84	1.74	18.88	11.87	1308.56
32 Alcoholic Beverages(9)	2801.39	-0.6	2819.54	2794.00	2767.28	2560.93	4.34	1.67	17.28	28.48	1001.24
33 Food Producers(23)	2538.60	+0.3	2528.88	2520.97	2519.90	2348.38	4.29	1.70	17.08	4.84	1127.89
34 Household Goods(15)	2528.59	-1.3	2562.84	2558.45	2553.22	2510.72	3.78	2.15	15.41	1.96	950.09
36 Health Care(20)	1945.75	+0.4	1938.81	1932.62	1929.73	1615.11	2.63	1.76	26.89	2.06	1169.47
37 Pharmaceuticals(13)	5076.42	-0.4	5097.46	5112.05	5109.09	3557.55	3.26	1.89	22.68	12.95	1699.72
38 Tobacco(1)	4841.11	-0.6	4870.76	4736.40	4815.70	3562.25	4.95	1.94	13.02	0.00	1171.21
40 SERVICES(253)	2321.57	-0.2	2325.31	2320.22	2312.60	1843.53	2.99	2.10	19.85	13.04	1196.47
41 Distributors(32)	2620.41	----	2619.67	2604.40	2602.69	2271.64	3.72	1.83	18.33	0.00	953.71
42 Leisure & Hotels(23)	2937.58	+1.0	2907.16	2891.97	2865.87	2090.18	2.83	2.09	21.11	104.50	1582.29
43 Media(46)	3826.78	-0.3	3840.97	3846.95	3822.24	2728.98	2.20	2.13	26.60	11.63	1374.68
44 Retailers, Food(15)	1854.90	-1.2	1877.50	1879.02	1878.07	1783.71	3.94	2.41	13.19	2.85	1163.20
45 Retailers, General(43)	1905.89	-0.1	1909.34	1904.23	1904.86	1514.37	3.11	2.23	18.00	5.57	1078.08
47 Breweries, Pubs & Rest.(24)	2995.45	-0.3	3003.32	2970.65	2965.62	2135.80	3.30	2.08	18.20	15.62	1428.26
48 Support Services(49)	2108.71	+0.3	2102.21	2098.26	2098.38	1446.66	2.28	2.52	21.71	2.88	1328.86
49 Transport(21)	2308.55	----	2307.59	2304.26	2287.49	2157.49	3.75	1.39	23.92	3.84	949.84
60 UTILITIES(33)	2451.37	-0.3	2459.51	2449.78	2448.07	2323.71	5.06	2.07	11.94	27.42	1037.00
62 Electricity(12)	2771.44	-0.3	2780.44	2770.18	2767.34	2418.19	5.01	2.60	9.60	105.57	1341.74
64 Gas Distribution(2)	1581.85	-0.1	1583.08	1586.28	1573.49	1918.26	7.57	1.37	12.03	0.00	793.64
66 Telecommunications(7)	2017.32	-0.2	2022.30	2011.40	2012.72	1951.04	4.19	1.77	16.89	0.15	913.16
68 Water(12)	2064.10	-0.8	2080.78	2071.23	2074.21	1753.38	5.91	2.60	8.14	3.61	1119.34
69 NON-FINANCIALS(667)	1944.59	-0.1	1946.88	1938.78	1935.14	1620.04	3.82	1.89	17.30	9.67	1457.57
70 FINANCIALS(109)	2936.56	-0.5	2952.63	2920.15	2904.63	2141.41	3.97	2.50	12.61	17.83	1247.70
71 Banks, Retail(8)	4157.57	-0.8	4192.31	4119.98	4087.74	2812.28	3.72	2.83	11.86	39.82	1345.57
72 Banks, Merchant(6)	3532.68	-0.1	3535.82	3505.85	3497.53	2971.21	2.64	2.41	19.68	0.00	1107.48
73 Insurance(24)	1419.76	-0.2	1422.14	1425.37	1418.70	1187.94	5.44	2.94	7.83	2.36	1042.26
74 Life Assurance(6)	3547.42	-0.5	3565.98	3544.34	3528.10	2444.94	3.93	1.53	20.76	0.00	1445.22
77 Other Financial(23)	2533.52	+0.3	2526.28	2525.55	2538.94	1826.86	3.59	1.91	18.20	1.06	1421.12
79 Property(41)	1451.27	----	1451.14	1448.26	1449.14	1381.22	4.31	1.31	22.23	2.64	881.72
80 INVESTMENT TRUSTS(126)	3126.23	-0.3	3134.57	3125.77	3129.18	2582.39	2.16	1.04	55.73	8.95	1085.33
89 FT-SE-A ALL-SHARE(901)	1840.77	-0.2	1844.44	1834.62	1830.26	1499.27	3.78	1.99	16.63	9.40	1537.22
FT-SE-A Fledgling	1153.90	+0.2	1152.02	1149.93	1150.08	961.44	2.94	2.21	19.20	3.10	1195.34
FT-SE-A Fledgling ex Inv Trusts	1154.80	+0.2	1152.41	1150.30	1150.14	960.84	3.22	2.39	16.30	3.26	1195.64

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3734.8	3733.5	3735.0	3723.6	3724.3	3723.5	3710.4	3712.7	3724.3	3737.7	3708.6
FT-SE Mid 250	4215.1	4214.3	4215.6	4213.2	4213.6	4214.4	4211.4	4210.5	4214.1	4215.7	4210.5
FT-SE-A 350	1866.9	1866.4	1867.1	1862.4	1862.7	1862.5	1857.0	1857.8	1862.7	1868.1	1856.3

Time of FT-SE 100 Day's high: 8:37 AM Day's low: 2:39 PM. FT-SE 100 1995 High: 3781.3 (02/02/96) Low: 2954.2 (23/01/95).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1099.7	1100.9	1103.8	1102.8	1102.6	1103.5	1103.6	1103.1	1103.8	1102.8	1097.3	5.5
Pharmaceuticls	5032.7	5032.7	5034.0	5013.8	5010.4	5010.8	4993.1	4995.8	5013.7	5021.4	5042.3	-20.9
Water	2068.9	2067.0	2064.2	2055.6	2057.4	2056.8	2055.5	2055.7	2055.3	2056.3	2073.3	-17.0
Banks, Retail	4228.5	4217.0	4220.5	4202.7	4200.4	4199.9	4179.5	4182.9	4201.5	4210.6	4245.8	-35.2

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.
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TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded. Source: FT Extel.

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WORLD STOCK MARKETS

EUROPE

PACIFIC

US INDICES

Dow Jones	Feb 28	Feb 27	Feb 26	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Industrials	5506.21	5549.21	5565.10	5630.49 (23/2/96)	3832.08 (30/1/95)	5630.49 (23/2/96)	41.22 (2/7/32)
Home Bonds	104.93	105.15	105.01	106.08 (14/2/96)	93.63 (3/1/95)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2045.18	2064.92	2079.24	2111.37 (22/2/96)	1473.19 (3/1/95)	2111.37 (22/2/96)	12.32 (8/7/32)
Utilities	221.28	223.17	223.94	234.00 (12/2/96)	183.03 (3/1/95)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5625.07 (5597.26) Low 5487.07 (5478.76) (Theoretical) Day's high 5563.28 (5565.10) Low 5496.46 (5509.11) (Actual)

Standard and Poors	Feb 28	Feb 27	Feb 26	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Composite‡	644.75	647.24	650.46	661.45 (12/2/96)	459.11 (3/1/95)	661.45 (12/2/96)	4.40 (1/6/32)
Industrials¶	758.78	762.02	766.02	778.23 (22/2/96)	548.28 (3/1/95)	778.23 (22/2/96)	3.62 (21/6/32)
Financial	66.63	66.55	66.89	67.69 (23/2/96)	41.64 (3/1/95)	67.69 (23/2/96)	8.64 (1/10/74)
NYSE Comp.	344.62	345.59	346.95	351.70 (12/2/96)	250.73 (3/1/95)	351.70 (12/2/96)	4.46 (25/4/42)
Amex Mkt Val	566.66	563.86	565.35	570.16 (22/2/96)	433.12 (6/1/95)	570.16 (22/2/96)	29.31 (9/12/72)
NASDAQ Cmp	1107.54	1106.17	1113.05	1117.79 (23/2/96)	743.58 (3/1/95)	1117.79 (23/2/96)	54.87 (31/10/72)

■ RATIOS

	Feb 23	Feb 16	Feb 9	Year ago
Dow Jones Ind. Div. Yield	2.12	2.18	2.13	2.69
	Feb 28	Feb 21	Feb 14	Year ago
S & P Ind. Div. yield	1.89	1.88	1.87	2.36
S & P Ind. P/E ratio	20.83	19.90	20.07	19.60

■ NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
EMC Corp	7,855,400	21¼	+½
Micron	6,343,100	34¾	+¾
Ford Motor	5,696,200	31½	+¼
Nokia	4,667,000	35⅞	−1⅞
Wal-Mart	4,411,900	21¼	−½
IBM	4,384,700	127½	−1⅛
Allstate	4,163,800	43½	−⅜
AT&T	4,157,100	64	...
US Wst Mdia	4,074,100	21¼	−⅛
Telefonos	3,432,500	30¾	−1

■ TRADING ACTIVITY

● Volume (million)	Feb 28	Feb 27	Feb 26
New York SE	447.000	434.78	395.179
Amex	27.409	23.92	21.147
NASDAQ	558.713	527.445	486.064
NYSE			
Issues Traded	3,097	3,111	3,099
Rises	1,206	995	790
Falls	1,101	1,337	1,610
Unchanged	790	779	699
New Highs	137	88	124
New Lows	22	33	26

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	643.00	646.25	+2.75	646.25	640.25	100,963	175,332
Jun	646.00	652.35	+2.70	652.35	646.00	13,234	42,086

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	20030.0	20070.0	+160.0	20120.0	19910.0	19,055	117,530
Jun	20050.0	20090.0	+100.0	20150.0	19950.0	30,137	137,492

Open interest figures for previous day.

NORTH AMERICA

CANADA

TORONTO (Feb 29 / Can $)

4 pm close

AFRICA

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1995. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $

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■ TOKYO - MOST ACTIVE STOCKS: Thursday, February 29, 1996

	Stocks Traded	Closing Prices	Change on day
Shinko Electric	9.7m	792	+74
NKK Corp	5.9m	292	+8
Nippon Steel Corp	5.1m	339	
Sumitomo Mtl Ind	4.5m	296	-5
Toshiba Corp	4.0m	813	-1
Mitsubishi Heavy	3.0m	851	+4
Green Cross Corp	3.0m	575	+25
Oki Electric Ind	3.0m	913	+7
Daiwa Bank	2.9m	710	+18
Mitsubishi Chem	2.8m	539	+2

4 pm close February 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995/96 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22⅞	12⅛	AAR	0.48	2.4	23	308	19¾	19⅛	19⅝	-⅜
46¾	35	AMP	1.00	2.3	21	4037	43⅞	42¼	42⅝	-⅞
89⅝	53⅞	AMR			35	7450	88½	85⅞	87¾	+1⅞
50½	36⅞	ASA	2.00	4.3	31	1306	47¾	47	47	
44¾	30¾	AbbtL	0.96	2.3	19	17616	42⅜	41	41¾	-½
18⅞	12	Abitibi Pr x	0.40	2.9	7	2909	14⅛	13⅞	14	-¼
29⅝	21	ABM Ind	0.70	2.4	15	82	29⅜	29¼	29⅜	
17½	13⅛	Acptncein			10	204	14⅞	14⅝	14¾	-⅛
50⅜	21⅞	ACE Ltd	0.56	1.2	11	212	47	46⅜	46¾	-½
9⅞	8⅛	ACM Gvt In	0.90	9.4	8	438	9¼	9⅝	9⅝	-⅛
7⅞	6½	ACM GvOpp	0.66	8.7		27	7⅝	7⅝	7⅝	
7½	5¾	ACM Gvt Sp	0.75	10.5		341	7⅛	7	7⅛	
9⅛	7¼	ACM Gvt Se	0.90	10.0		132	9	8⅞	9	
9½	7⅝	ACM Mun	0.90	9.9		145	9¼	9⅛	9⅛	
29¼	10¼	AcmeClv	0.52	2.7	4	41	19¼	18⅞	19⅛	+⅛
38¾	6⅝	Acme Elect			56	61	6¾	d6⅝	6¾	
34½	23¼	Acordia	0.72	2.6	15	53	28⅛	28	28	-⅛
16¾	10⅛	Acuson			46	246	14⅞	14⅝	14⅞	+¼
19⅝	15⅝	Adams Expr x	0.36	1.9	0	184	19¼	19⅛	19¼	
38⅞	18⅛	AdvMic			6	6807	19¾	19¼	19⅜	+⅛
10¼	5	Advest Grp	0.16	1.7	9	60	9½	9¼	9⅜	-⅛
27½	16½	Advo Inc	0.10	0.5	23	439	21⅞	21¾	21⅞	
46¾	24.80	Aegon	1.28	3.0	16	91	43½	43⅛	43⅜	+⅛
5⅞	3⅜	Aerflx			9	497	5⅛	4⅞	5	
76¾	46¾	AetnaL	2.76	3.6	36	14739	75¾	71⅝	76⅝	+4⅛
49½	37⅞	Aflac	0.52	1.1	13	1582	48⅛	46⅜	46⅝	-1⅞
28⅜	16	Ahmnsn	0.88	3.9	7	4007	23	22½	22¾	+⅛
59½	43⅞	AirPrC	1.04	2.0	18	2201	53⅝	53⅛	53¼	
29½	18⅜	Airbne Frt x	0.30	1.1	26	674	28	27⅝	27⅞	
37⅛	19⅝	Airgas Inc			31	400	36¼	35½	36	-⅛
18	13⅜	Airlease	2.00	11.3	12	21	17⅞	17¾	17¾	-⅛
35⅝	24	AirTch			114	7486	32¼	30¾	31	-1⅛
22¾	13½	Alaska Air	0.20	0.9	17	5173	u22¾	21⅝	22¼	+⅝

Continued on next page

4 pm close February 29

NYSE COMPOSITE PRICES

Continued from previous page

1995/96 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Price	Chng Prev. Close
48½	19⅝	Wyle Labor	0.28	0.9	11	2424	32⅞	31½	32¾	+1⅜
20¼	12 3/32	Wynns Int	0.40	1.8	13	80	u22¼	21¾	22⅛	+¼

- X - Y - Z -

1995/96 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Price	Chng Prev. Close
144⅝	98½	Xerox	3.48	2.7	16	5257	133¼	129⅝	130¼	-3⅞
52½	39¼	Xtra Corp	0.72	1.7	13	298	44⅛	43⅜	43⅝	-⅞
25¾	19½	Yankee Egy	1.26	5.3	16	67	23¾	23⅝	23⅝	-⅛
49	34⅛	York Int	0.24	0.5	20	614	48¼	47⅞	47⅞	-⅜
4½	2½	Zapata	0.14	3.9	6	31	3⅝	3½	3⅝	-⅛
12⅛	5⅞	ZnthEl			3	585	6⅞	6¾	6⅞	+⅛
24⅝	19⅜	Zenith Nat	1.00	4.2	65	84	23¾	23⅜	23¾	+⅜
7⅛	6⅛	Zenix Inc	0.72	10.3		41	7	6⅞	7	
17⅞	12⅝	Zero	0.44	2.5	17	720	u17⅞	17⅝	17¾	
26	16⅞	Zurn Ind	0.40	1.8	16	152	21¾	21⅜	21⅝	-⅛
11½	10¼	Zweig Fund	1.12	10.2		296	11	10⅞	11	+⅛
9	7⅞	Zweig Tot	0.84	9.5		300	8⅞	8¾	8⅞	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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AMEX COMPOSITE PRICES

4 pm close February 29

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Cambrex	0.20	15	154	u46⅞	46⅛	46⅜	+¼
Can Marc	0.14	30	31	10¼	10⅛	10⅛	
Cntrl FdA	0.01		264	5¼	5⅛	5⅛	-⅛
Cominco	0.30	15	15	21⅜	21¼	21¼	-⅛
CmpTch		38	57	12	11⅝	12	+⅛
Computrac		14	6	1¾	1¾	1¾	+1/16
Concd FbA		5	10	4 7/16	4 7/16	4 7/16	
HanDir		13	1275	1¾	1⅝	1⅝	
Hasbro	0.40	19	7006	34⅝	34¼	34½	
NY TimA	0.56	19	1306	28	27¼	27½	-½
Xytronix		2	261	1 19/32	1½	1¾	

NASDAQ NATIONAL MARKET

4 pm close February 29

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
ABS Inds	0.20	1	1563	1	6⅞	1	+⅛
ACC Corp	0.12	38	460	29½	29	29	-¼
Acclaim E		14	4551	12⅝	12⅜	12 9/16	+1/16
Acme Mets		6	433	17	16½	16½	-¼
Acxiom Cp		40	378	26	25⅜	25½	-⅜
Adaptech		323	1313	u56⅞	50¼	56 7/16	+3 7/32
ADC Tele		39	6429	40¼	38	39¾	-¼
Addington		41	175	13	12½	12½	-½
AdiaADR	0.16	10	155	23⅞	23¼	23⅞	
Adobe Sys	0.20	26	12681	34⅛	32⅞	33½	-¼
Adv Logic		14	1399	7⅞	7⅝	7¾	+⅛
Adv Polym		19	972	9	8½	8¾	+1/16
AdvTchLab		33	1493	30	29	29¾	
Advanta x	0.36	14	887	47¾	46½	47¾	+¾
AgnicoEa	0.10	46	152	17¼	16⅞	16⅞	-⅛
AirExpr	0.20	15	212	24¾	24½	24½	-⅜
Akzo ADR	1.53	9	505	55½	55¼	55½	-⅛
AldBld	0.88	19	1180	24	23¼	23½	-⅛
Allen Org	0.52	13	16	40½	39½	39½	-11/16
Allan Ph		13	3278	17½	16¾	16¾	+⅜
AlldCapll	1.32	16	172	18¼	17½	17⅞	+⅜
Alld Cap	1.88	12	186	13½	13	13½	+½
Alcatte C	0.32	2	489	u5½	4¾	5½	+.86
Alta Gold	0.05	16	2879	3 13/32	3 7/16	3 9/16	-1/16
Altera Co		34	35318	69⅞	65¼	65¼	-5⅞
Am Banker x	0.76	11	345	36½	35¾	36	-⅜
AmCMoy	0.16	12	483	9	8½	8½	-½
Am Manag		33	1238	24	23½	24	
Am Softwa	0.32	412	2633	4¼	3⅞	4⅛	+⅛
Am Frtwys		26	3076	11⅛	10¾	11	+⅛
AmGrtA x	0.64	18	3756	27½	26¾	27⅜	+⅛
AmIntP		1	690	31/32	13/16	31/32	+1/16
AmNtn	2.36	8	176	u69	67¾	68¼	-½
AmPwrConv		14	7163	10⅞	10½	10½	-½
Am Trav		13	6040	u30½	28¼	30⅛	+1¾
Amgen Inc		42	19487	60¼	59⅜	59¾	-¼
Amtech Cp	0.08	49	1393	6¾	6⅛	6⅜	+¼

AMERICA

US equities volatile at midsession

Wall Street

Blue chip shares tracked a volatile bond market in the early part of yesterday's session, while technology shares slid on worries about the semiconductor sector, *writes Lisa Bransten in New York*.

Both the Dow Jones Industrial Average and the Standard & Poor's 500 opened weaker as a drop in initial claims for unemployment benefits sent the long bond sharply lower. Later, however, both indices climbed into positive territory as the bond market staged a brief recovery, only to retreat as bonds resumed their slide.

By 1pm, the Dow was off 14.08 at 5,492.13, the Standard & Poor's 500 had fallen 2.68 to 642.07 and the American Stock Exchange composite was 3.50 weaker at 563.16. New York SE volume was 274m shares.

Meanwhile, technology shares were lower after LSI Logic – a chip manufacturer – warned that its first-quarter earnings would be below analysts' estimates. In early trading the Nasdaq composite was 6.61 lower at 1,100.94 and the Pacific Stock Exchange technology index off 1.3 per cent.

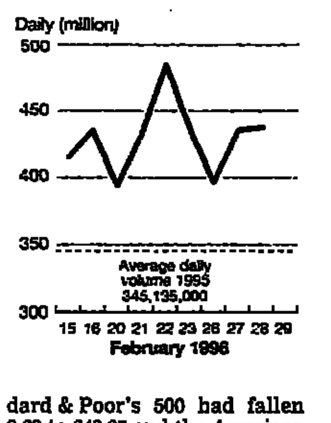
Late on Wednesday, LSI said it expected first-quarter profits of 32 to 35 cents a share, about 10 cents a share below the mean analysts' estimate of 46 cents a share. LSI, which trades on the NYSE, tumbled $8 or 22 per cent to $28⅝. On the Nasdaq, Lam Research fell $1⅛ to $37⅞. Applied Materials was $2¼ lower at $36¼ and Cyrix dropped $1⅝ to $23⅝.

But Internet access providers managed a modest rebound yesterday after falling sharply earlier this week following AT&T's announcement that it would offer Internet access. Netcom On-Line Communications, which fell $7¾ on Tuesday and Wednesday, rallied $2½ to $22⅞.

Shares in Revlon, which was floated yesterday on the NYSE, climbed to $28⅜, up $4⅜ from their offer price. Although the early price talk was for the shares to be sold for $19 to $22, the shares were priced late on Wednesday at $24.

The Gap slipped $⅜ to $53½ on profit-taking after the retailer reported fourth-quarter earnings of $1.08 per share, 6 cents ahead of analysts' estimates. Shares in the company had risen more than $5 since last Wednesday as investors anticipated strong results.

NYSE volume



Canada

Toronto was weak at midsession, trailing Wall Street on the last day that domestic investors were permitted to invest pension fund money in stocks as a retirement tax shelter. The TSE 300 composite index was 20.53 weaker by noon at 4,926.70 in volume of 44.4m shares.

Aber Resources jumped C$2 to C$15⅝ after the diamond exploration company announced promising results for its Diavik property in Canada's Northwest Territories.

Among weak paper makers, Stone Consolidated and Atibiti-Price each declined C$½ to C$16 and C$19 respectively in heavy trade. Fairfax Financial Holdings advanced another C$1 to C$133, after a morning's high of C$135, following several days of gains.

São Paulo off 4%

The region's equity markets took fright from a rise in US bonds. At midsession SAO PAULO had fallen 4 per cent in the Bovespa index which was down 2,114 at 49,879.

Brokers said there were also domestic considerations overhanging sentiment, not least a scandal involving Banco Nacional, which failed last year.

BUENOS AIRES was also sharply lower in midday dealings. The Merval index relinquished 18.61 or 3.6 per cent at 497.31. Traders said this fall followed the decline in the country's ADRs.

Most of the biggest Merval losses were in stocks with listed ADRs: Telefonica and Telecom tumbled 6.8 per cent and 5.5 per cent respectively, while Banco de Galicia shed 5.9 per cent.

MEXICO CITY broke down through the 2,830 support level and at midday the IPC index was off 44.88 or 1.6 per cent at 2,817.71. Dealers said the market has support at 2,800 and further support at 2,730.

S Africa falls prey to rumours

Johannesburg finished mixed after a day in which trading was initially subdued by unfounded rumours that President Nelson Mandela had suffered a heart attack, before activity picked up in apparent celebration of South Africa's victory over Pakistan in the World Cup cricket series.

Gold shares opened firmer on a rejuvenated bullion price, but industrials were weak in reaction to Wall Street's overnight performance.

Analysts noted, however, that the bullion price would need to rise above $401 before gold shares would regain their confidence.

The overall index edged 2.1 higher to 6,705.4, industrials dropped 34.9 to 8,307.1 and golds gained 56.7 at 1,786.1.

De Beers was steady at R123, Liberty declined R1.25 to R20, Dries was up R2.25 to R58.50, Vaal Reefs climbed R15 to R380, Western Areas put on R2 at R65.50 and Implats rose R3 to R70.

Among the losers, Iscor fell 12 cents to R3.28 and Sappi dipped 25 cents to R47.50.

EUROPE

Asea, Brown Boveri lose Wednesday's appeal

Analysts trimmed forecasts for the ABB engineering group, and investors in Swedish and Swiss equities took profits in the constituents. Asea fell SKr19 to SKr678 in STOCKHOLM, which retreated from the all-time highs established on Tuesday and Wednesday.

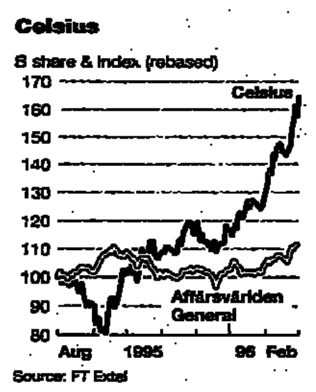
Profit-taking here hit both cyclical and rate-sensitive shares, and the forestry sector, too, was pulled back by 1.4 per cent after its 10 per cent advance over the previous week. Among front line blue chips, Astra, the drugs maker, shed SKr6.50 to SKr310; the shares had risen sharply since the announcement of a listing in New York.

The Affärsvärlden General index fell 21.3 or 1.1 per cent to 1,865.4. However, Celsius, the defence and technology group, rose SKr3.50 to SKr185.50 as it announced that it would pay out shares in its Celsius Information Systems subsidiary to shareholders.

ZURICH was a little more mixed, although Brown Boveri, similar to Asea, more than erased Wednesday's sharp rise, giving up SFr39 to SFr1,436 as the SMI index closed 5.7 softer at 3,355.8.

Balancing items included a SFr60 rise in Swissair to

Celsius



SFr1,155, attributed to a UBS forecast of improved margins and profitability at the airline; Alusuisse, under pressure earlier in the week over its planned capital increase, recouped SFr10 to SFr966; and insurers edged ahead on a growing perception that the sector would outperform the banks, since insurance companies did not have to bear the risk of bad loans.

FRANKFURT tried early to break 2,500 and set a record intra-day high of 2,494.66 in the pre-bourse, losing it as bunds and futures came back and after the Bundesbank kept key interest rates unchanged. However, the dollar held above DM1.47 and the Dax index recovered from 2,470.85 to close just 1.77 lower at 2,485.18.

Turnover rose from DM9.9bn to DM10bn. Volkswagen and Thyssen liked the higher dollar and rose DM9 to DM563.60 and DM5.65 to DM283.35 respectively. However, in engineers, the troubled Deutsche Babcock slid another DM3 to DM94.

Building industry data for the fourth quarter of 1995 saw West German orders falling by 8 per cent. Strabag Bau, which earlier this week saw earnings hit by restructuring costs in 1995 and forecast better operating results this year, did not like this and fell a further DM9 to DM196.

AMSTERDAM featured an excellent set of 1995 results from ABN Amro, which helped to edge the AEX index up 0.42 to 513.22. ABN's 14 per cent rise in 1995 profits and a higher earnings estimate for the current year left the shares Fl 2.10 ahead at Fl 76.50.

There was more satisfaction in Van Ommeren, the shipping and tank storage group, up Fl 4 to Fl 56.40 following its 1995 earnings report and forecasts for another good run in 1996.

DSM, however, had an unhappy session as the chemicals group reported 1995 net profits much in line with estimates, and forecast that 1996 figures would probably not match that level. The stock slipped 60 cents to Fl 153.90.

One of the day's worst performers was Sphinx, the maker of bathroom fittings, which fell Fl 1.70 or 5.8 per cent to Fl 27.80 as the company issued a profits warning for the 1995/96 financial year.

PARIS found excitement in Paribas, marking the shares up FFr9.60 or 3.5 per cent to FFr281.60 in reaction to Wednesday's restructuring plans. But investors could find little else to focus on and the CAC-40 index lost 6.12 to 1,990.77. Turnover, at FFr6.4bn, was lifted by the expiry of February options and futures.

Chargeurs, up 12 per cent on Wednesday on its demerger plans, eased FFr38 to FFr1,300 as profits were booked. Valeo was unchanged at FFr278 as reports circulated that Lucas, of the UK, might buy a stake in the company.

MILAN recouped early losses, with comments by Mr Mario Arcelli, the budget minister, that annual inflation should fall to below 5 per cent in March providing a late fillip.

Early weakness was in part attributed to an opinion poll which suggested that support for the caretaker prime minister Mr Lamberto Dini's new centrist force would not be sufficient to ensure victory for the centre-left coalition in next month's election.

The Comit index added 3.58 at 606.81 and the real-time Mibtel index picked up from 9,612 to finish 7 higher at 9,698.

Magneti Marelli, the motor components manufacturer, lost L162 to L2,121 after a presentation to analysts in which disappointing growth prospects were outlined.

Montedison improved L10.6 to end at L953.1 on hopes that the company would pay a dividend.

HELSINKI saw Nokia A flatten out in late trading after a FM2.50 fall at the official close. The shares ended 50 penni lower at FM158 as the Hex index shed 9.03 to 1,816.40.

Forestries gained a fraction on strong results from Kymmene and Repola, which rose FM2 to FM127 and FM1 to FM90.90 respectively; but Rauma, the Repola subsidiary, fell FM2 to FM92 on fears that profits might decline this year after doubling in 1995.

WARSAW gained 4 per cent on high turnover but traders foresaw an element of profit-taking over the next few sessions. The Wig index rose 397.9 to 11,028.5 as turnover leapt 90 per cent to 184.6m zlotys.

Analysts said several of the larger capitalised stocks were now fairly priced, and they saw interest shifting to smaller, second-line companies.

Written and edited by William Cochrane, Michael Morgan and John Pitt

FT-SE Actuaries Share Indices

Feb 29								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1578.21	1578.19	1577.60	1578.33	1577.64	1574.72	1573.09	1575.00
FT-SE Eurotrack 200	1660.39	1658.25	1658.28	1658.72	1657.88	1655.31	1655.54	1656.68
	Feb 28	Feb 27	Feb 26	Feb 23	Feb 22			
FT-SE Eurotrack 100	1574.95	1556.41	1551.65	1557.27	1536.56			
FT-SE Eurotrack 200	1658.93	1643.14	1646.19	1656.13	1645.12			

Base value 1000 (26/10/90); High/day: 100 - 1579.59; 200 - 1660.71 Low/day: 100 - 1572.52 200 - 1653.37 † Partial

ASIA PACIFIC

Nikkei regains 20,000 level as Bombay drops 2.9%

Tokyo

Buying by investment trust funds and technical activity supported share prices. The Nikkei average rose for the first time in three trading days, recovering the 20,000 level, *writes Emiko Terazono in Tokyo*.

The 225 index closed 205.40 higher at 20,125.37 after extremes of 19,902.53 and 20,129.16. It lost ground in the morning session on selling by foreign investors, but domestic institutions placed buying orders at lower levels, while investment trust arms of Nomura Securities purchased shares. Nomura set up an investment trust worth Y100bn on Wednesday and five investment trusts totalling Y130bn yesterday.

Volume totalled 300m shares, against 346.8m. Traders said that increased caution ahead of futures and options settlements at the end of next week kept most investors on the sidelines.

The Topix index of all first section stocks rose 13.24 to 1,560.46 and the Nikkei 300 by 3.01 to 291.37. Advances led declines by 544 to 490 and 158 issues were unchanged.

In London the ISE/Nikkei 50 index eased 0.63 to 1,356.21.

Semiconductor-related stocks gained ground following the strength in the sector on Wall Street overnight. Tokyo Electron, a manufacturer of semiconductor equipment, climbed Y70 to Y4,220 on reports that its recurring profits for the current business year are likely to rise by 2.4 times.

Advantest, a semiconductor testing device maker, added Y130 at Y5,900 and Toshiba Ceramics Y40 at Y1,110. Other high-technology issues were also higher.

Green Cross, the blood products maker, which lost ground for five consecutive trading days due to its involvement in the sales of tainted blood products to haemophiliacs, recovered Y25 to Y575.

Bank shares, recently battered on concerns about the parliamentary negotiations over the liquidation scheme for the country's ailing jusen, or housing loan companies, rallied. Daiwa Bank put on Y18 at Y710 following its decision to accept part of the charges filed by US prosecutors over its involvement in the bond trading scam in New York. Industrial Bank of Japan improved Y30 to Y2,670 and Dai-Ichi Kangyo Bank Y80 to Y1,970.

In Osaka, the OSE average firmed 18.23 to 21,588.17 in volume of 128.8m shares.

Roundup

Nervous, speculative selling left BOMBAY down 2.9 per cent after a special court issued non-bailable arrest warrants against 10 political leaders, including some former senior ministers, allegedly involved in a bribery scandal. The BSE-30 index tumbled 102.10 to 3,391.99.

Analysts said speculative selling was heavy in index-linked shares, while domestic investment funds became selective buyers in some blue chips in the B-group.

Reliance dropped Rs12.50 to Rs212.75, SBI Rs11 to Rs241, Siemens Rs15 to Rs540 and Tisco Rs11.75 to Rs194.50.

KUALA LUMPUR was broadly firmer, boosted by speculative demand for second liners, but Repco continued to tumble on reports that the stock was under official investigation.

Repco added to Wednesday's M$7.50 fall with another of M$5.25 to M$71.75 after the national news agency said the Securities Commission had launched an investigation into alleged manipulation of the share price.

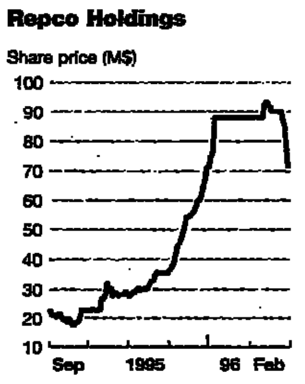
The composite index gained 7.46 at 1,084.41 and the second board index jumped 2.2 per cent to 399.92.

One recent second board gainer, Super Enterprise, rose M$2.50 to M$22.50 before being suspended at the company's request for a news announcement. Takeover talk had boosted the company's shares.

HONG KONG fell 1.2 per cent, mainly on worries about Wall Street's volatility and Sino-US trade tensions.

The Hang Seng index dived 138.97 to 11,125.68. Turnover rose to a moderate HK$6.5bn, with hedge funds said to be among the big sellers.

Repco Holdings



Across the board losses among major blue chips saw Hutchison, in particular, reversing a sharp early rise to end 60 cents off at HK$49. It had gained 65 cents in early trade on the announcement of terms for the float of Orange, its British mobile phone group.

Giordano, the casual wear chain which resumed trading after a suspension, jumped 30 cents to HK$8.25 on news that Jimmy Lai, the group's founder who had once vehemently criticised Li Peng, the Chinese premier, had sold all his shares, boosting the company's prospects in China.

SEOUL eased in hesitant trade, dampened by rumours that the government was investigating cases of stock price manipulation. The composite index lost 2.38 at 852.83.

The Securities Supervisory Board declined to confirm whether the rumour was true.

Soosan Heavy Industry went limit-up, rising Won700 to Won13,600 on a rumour, subsequently denied, that the Hyundai Group was seeking to take over the company.

SYDNEY moved higher on hopes that the Conservative opposition would be victorious in tomorrow's general election. The All Ordinaries index advanced 24.3 to 2,290.0. Volume was 352m shares worth A$798m.

JAKARTA finished sharply lower in increased trading volume as foreign investors sold large-capitalisation stocks. The composite index fell 10.06 or 1.7 per cent to 585.20. Turnover was Rp315.5bn.

Astra International's domestic shares shed Rp200 or 6.5 per cent to Rp2,875 after the government said it was to grant tax exemptions to another, unlisted carmaker, PT Timor Putra Nasional. The foreign stock lost Rp525 or 12 per cent to Rp3,850 in volume of 2.67m.

WELLINGTON was weaker, although an afternoon recovery in the telephone utility Telecom helped to offset the effects of a sharp fall in the price of Fletcher Challenge, the forestry conglomerate. The NZSE-40 capital index lost 8.94 to 2,141.08 in NZ$56m turnover.

Fletcher Challenge receded 19 cents to NZ$3.41, surrendering Wednesday's 16-cent rise which followed the company's first-half results. Telecom finished unchanged at NZ$3.66 after an initial decline.

COLOMBO rose for the second consecutive session as foreign investors, in particular, looked for selected blue chips. The All-share index rose 4.1 to 671.0 in SLRs38m turnover.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	WEDNESDAY FEBRUARY 28 1996								TUESDAY FEBRUARY 27 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (81)	198.30	0.9	191.51	130.85	150.66	172.92	0.4	3.90	196.62	189.42	129.88	148.50	172.29	200.32	158.79	164.95
Austria (26)	188.77	-0.3	182.30	124.56	143.42	143.26	0.3	1.60	189.34	182.41	125.07	143.01	142.85	139.28	168.11	185.46
Belgium (34)	212.52	0.3	205.24	140.23	161.46	157.23	0.8	3.35	211.82	204.06	139.92	159.98	156.08	215.81	172.88	173.06
Brazil (28)	162.86	0.9	157.28	107.47	123.74	294.74	0.9	1.57	161.39	155.48	106.61	121.90	292.23	170.25	86.06	128.91
Canada (101)	153.82	-0.4	148.56	101.50	116.87	153.33	-0.2	2.45	154.49	148.84	102.06	116.69	153.71	158.71	125.64	128.35
Denmark (33)	303.54	-0.3	293.15	200.30	230.62	233.06	0.2	1.61	304.53	293.38	201.17	230.01	232.65	305.17	252.41	262.71
Finland (24)	182.57	-2.1	176.32	120.47	138.71	173.04	-1.9	1.89	186.54	179.71	123.23	140.89	176.42	276.11	171.13	182.64
France (99)	190.67	0.8	184.14	125.82	144.87	149.84	1.1	3.10	189.25	182.32	125.02	142.94	148.15	191.17	161.63	161.90
Germany (60)	173.42	0.4	167.48	114.43	131.76	131.76	1.0	1.85	172.67	166.34	114.06	130.41	130.41	173.42	142.25	149.93
Hong Kong (58)	438.53	0.5	423.51	289.37	333.18	435.30	0.5	3.27	436.50	420.52	288.35	329.68	433.26	451.19	323.87	340.43
Ireland (16)	259.04	-0.1	250.17	170.93	196.81	231.08	0.3	3.42	259.36	249.86	171.33	195.89	230.45	262.70	205.44	215.75
Italy (59)	76.61	2.4	73.99	50.55	58.21	88.52	2.3	1.70	74.83	72.09	49.43	56.52	86.57	82.71	65.45	72.87
Japan (482)	149.12	-0.4	144.01	98.40	113.30	98.40	-0.5	0.78	149.66	144.18	98.86	113.04	98.86	164.62	137.56	140.05
Malaysia (107)	519.44	-0.1	501.65	342.76	394.65	509.37	-0.1	1.65	519.71	500.68	343.31	392.53	509.86	561.96	425.77	487.98
Mexico (18)	1105.04	-2.4	1067.19	729.17	839.56	9118.80	-2.3	1.52	1132.43	1090.96	748.07	855.31	9335.56	1237.14	647.81	822.68
Netherland (19)	281.23	0.7	271.60	185.57	213.67	209.82	1.2	3.24	279.20	268.98	184.44	210.88	207.32	283.23	225.09	225.09
New Zealand (13)	81.63	0.3	78.83	53.86	62.02	64.72	0.9	4.50	81.35	78.37	53.74	61.44	64.12	85.49	72.39	73.38
Norway (33)	236.94	-1.3	228.82	156.35	180.02	205.02	-0.7	2.26	239.98	231.19	158.53	181.25	206.54	243.79	202.76	212.26
Singapore (44)	447.40	-0.5	432.08	295.22	339.92	291.14	-0.2	1.38	449.63	433.17	297.02	339.60	291.81	465.21	346.10	354.75
South Africa (45)	397.25	0.1	383.64	262.13	301.81	331.16	-0.2	3.12	397.02	382.48	262.27	299.87	331.68	437.76	303.93	303.93
Spain (37)	175.88	0.7	169.86	116.06	133.63	163.93	1.3	3.65	174.58	168.29	115.39	131.94	161.94	175.88	124.10	132.63
Sweden (47)	342.56	0.3	330.82	226.04	260.26	340.05	0.7	2.21	341.41	328.90	225.53	257.86	337.81	342.56	232.23	240.20
Switzerland (38)	232.82	0.7	224.85	153.63	176.89	171.91	1.4	1.55	231.15	222.69	152.70	174.59	169.53	239.55	171.94	172.11
Thailand (46)	179.56	-1.0	173.41	118.48	136.42	175.55	-1.0	2.00	181.39	174.75	119.82	137.00	177.27	193.96	130.16	147.95
United Kingdom (205)	231.78	0.3	223.84	152.94	176.10	223.84	0.6	4.07	231.04	222.58	152.62	174.50	222.58	235.50	192.74	192.74
USA (631)	263.69	-0.3	254.66	174.00	200.34	263.69	-0.3	2.19	264.43	254.75	174.68	199.72	264.43	269.11	197.20	199.67
Americas (778)	240.50	-0.3	232.26	158.69	182.72	202.20	-0.3	2.19	241.20	232.37	159.33	182.18	202.78	245.54	180.00	182.85
Europe (730)	206.61	0.5	199.53	136.33	156.97	177.61	0.9	3.00	205.54	198.01	135.78	155.24	176.01	206.61	169.53	170.49
Nordic (137)	293.75	-0.3	283.69	193.84	223.18	252.90	0.1	2.07	294.51	283.73	194.55	222.44	252.62	295.02	222.22	230.81
Pacific Basin (832)	162.68	-0.2	157.11	107.35	123.60	110.59	-0.3	1.20	163.06	157.09	107.71	123.16	110.96	171.87	146.97	149.26
Euro-Pacific (1562)	180.89	0.1	174.69	119.36	137.43	135.95	0.3	2.06	180.66	174.04	119.34	136.45	135.60	183.39	157.42	158.01
North America (732)	256.91	-0.3	248.11	169.52	195.19	256.31	-0.3	2.20	257.65	248.21	170.20	194.60	257.03	262.26	192.77	195.25
Europe Ex. UK (525)	187.97	0.6	181.54	124.04	142.81	151.33	1.1	2.41	186.79	179.95	123.39	141.08	149.68	187.37	152.92	154.45
Pacific Ex. Japan (350)	287.38	0.3	277.54	189.63	218.34	251.47	0.2	2.84	286.49	275.99	189.25	216.38	250.90	292.69	229.25	238.25
World Ex. US (1754)	182.30	0.1	176.05	120.29	138.50	140.18	0.2	2.08	182.11	175.44	120.30	137.55	139.67	184.71	157.80	158.39
World Ex. UK (2180)	205.00	-0.1	197.98	135.27	155.75	170.96	-0.1	1.94	205.21	197.69	135.56	154.99	171.04	207.64	167.83	168.70
World Ex. Japan (1903)	239.43	0.0	231.23	157.99	181.91	225.14	0.1	2.53	239.37	230.60	158.12	180.79	224.81	242.17	187.55	188.75
The World Index (2385)	207.39	-0.1	200.28	136.85	157.56	175.73	0.0	2.13	207.52	199.92	137.08	156.74	175.72	209.73	170.18	170.82

Latest prices were unavailable for this edition.

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INTERNATIONAL REPO MARKETS

The new kid in the City

Philip Gawith and Richard Lapper *discuss* the rapid growth of repo which now has annual purchases of $7,300bn

If you believe the more enthusiastic advocates for repos, they appear to be a solution to everything from the common cold to heartache. It is claimed that they offer improved returns to investors, cheaper financing to borrowers and greater security to lenders.

But even if the claims can sometimes sound a little extravagant, there can be no denying the increasingly central role which repo – sale and repurchase agreements where one party sells a security to another, and simultaneously agrees to buy it back at a later date – is playing in modern capital markets.

Ms Christine Brown-Quinn, head of repo marketing at SBC Warburg in London, says: "Repo is the grease that makes the wheels go round."

Within banks, the repo desk is connected to cash traders, who want to know the cost of financing, to the fixed income sales force, who use it as a means of offering enhanced yields and cheaper financing to customers, and to proprietary trading and options desks, for whom it serves as a source of financing and hedging.

Repo had its roots in the US where investment banks, without ready access to a deposit base, had an incentive to develop a repo market to finance their bond holdings. US companies and institutions were also willing counterparties, ready to diversify investment of their surplus cash beyond the deposit and commercial paper markets into repo.

Although repo in domestic US markets goes back 80 years, the international repo market is only about 10 years old. But in that time it has experienced impressive growth, to the point where it is now one of the world's largest financial markets. Figures from Greenwich Associates, based on a survey of European and Middle Eastern investors, show net repo purchases to have risen from $1,208bn in 1993 to $3,541bn in 1994 and $7,300bn last year.

This rise has been fuelled by such factors as rapid growth in government debt issuance, central bank use of repo for open market operations and the growing number of counterparties becoming involved in the market. The big US investment banks which first turned to repos as a means of financing their holdings of bonds in the 1970s, are still prominent participants. But they are being joined in the market by large European and Japanese banks, such as Deutsche Morgan Grenfell, UBS, SBC Warburg, Nomura and National Westminister.

The US still accounts for more than 70 per cent of trades, with an estimated $1,000bn outstanding in 1994. However business elsewhere, especially in Europe, is growing. The off-shore D-Mark repo market, for example, is estimated to total some DM150bn, and is growing at around 20 per cent per annum. And repo transactions are now being conducted in more currencies, with an increasing range of bonds – including emerging market debt – used as collateral.

"The market is getting bigger and more diversified," says James Tomkinson, head of repo products at Nomura in London. "As new entrants come into the repo market, the result is that longer-term players are looking for new opportunities."

The most recent, and substantial, fillip to the repo market came with the British government's decision at the start of the year to open its bond market to repos. Previously the Bank of England had restricted the institutions which could borrow and lend government bonds. Now the market is open. This is expected to improve liquidity in the gilts markets, with beneficial spin-offs for the government's cost of borrowing.

Japan is also taking measures to develop a new repo market, scheduled for launch in April, which will bring its existing markets more into line with international practice.

The growth of the UK market has been hampered by documentation and settlement problems. And institutions which lend government bonds have been slow to take part in the market, partially because they are reluctant to manage the cash collateral. Even so there are some early signs that volumes are beginning to pick up.

A heightened awareness of the risks inherent in unsecured lending has also boosted the cause of the repo market. The collapse of Barings bank in February 1995 was a salutary experience for many. "All of a sudden people have become a lot less complacent about unsecured loans to banks," says Mick Chadwick, head of repo at UBS. The affair has "acted as a catalyst in accelerating the desire of institutions to act in a collateralised environment," he adds.

Another factor has been the introduction in early January of the capital adequacy directive (CAD) to the European Union. This clarified rules governing the amount of capital that banks registered in the EU must set aside against credit risks linked to repo. Less capital must be set aside against repos than against unsecured loans, so banks can make more efficient use of their capital by lending out money on repos than they can on an unsecured basis.

It has not, however, been one-way traffic. Episodes such as the losses suffered by Orange County, California, have tarnished repo in the eyes of some, though defenders of repo are quick to point out that in that instance it was a misreading of the market, not repo, which caused losses.

What such events, and the launch of the gilts repo market, have made clear, is that education is the biggest marketing challenge facing banks. "Education is where most of my time is spent – getting over the hump of misconceptions," says Ms Brown-Quinn of SBC Warburg. "The products are very simple, but there is so much jargon involved that it totally confuses the customer."

The largest users of repo are commercial and investment banks, followed by central banks. But if the growth of recent years is to be continued, then banks will need increasingly to encourage customers to use repo. The UK experience is that an increasing number of companies, pension funds, asset managers and insurance companies are using repo, though the growth comes off a low base.

Dealers are now pushing to promote greater interest among European corporate clients, partially by stressing the advantages of tri-party repo, in which the collateral is held by an independent custodian. (In Europe Euroclear, Bank of New York and Cedel play this role).

"Unless you are a corporate with a reasonable amount of cash the operational hassles of setting up repo facilities may not justify the effort involved," says Mr Chadwick of UBS. Tri-party repo helps because it allows corporates to invest money in repo without having to cope with the administrative difficulties of managing the collateral.

Although the repo market is in some ways a young one, there are already signs of maturity. These are most apparent in the US domestic market, where the low returns, with competition expected to curb spreads further, has led to talk of consolidation in the market.

Banks have responded to these challenges by seeking out new products and markets which offer better returns.

Theoretically, it is possible to repo any security. In practice, the repo market in government bonds outweighs that in other securities. This is because government bond issues are the largest and offer superior liquidity. But instruments such as corporate bonds, Brady bonds, certificates of deposit and mortgage-backed securities can also be repoed.

Over the past year to 18 months, the fastest-growing sector of the international repo market has been the market in sub-investment grade paper issued by emerging market countries. Most activity has been focused on Latin American debt, but the focus is now broadening to encompass countries in central and eastern Europe.

The combination of growth in these emerging markets, and a steady shift in favour of collateralised lending in countries such as the UK, Germany and Japan, should ensure that the onward march of repo continues unabated.

IN THIS SURVEY

Editorial production: Roy Terry
Illustration: David Bromley
Cartoons: Roger Beale

A GUIDE TO REPOS by Richard Lapper

Clarifying a complicated subject

What are Repos?
Repo is short for "repurchase". In effect, it means a sale and repurchase agreement. It is a contract to sell securities for cash and then to buy them back at an agreed future date and price.

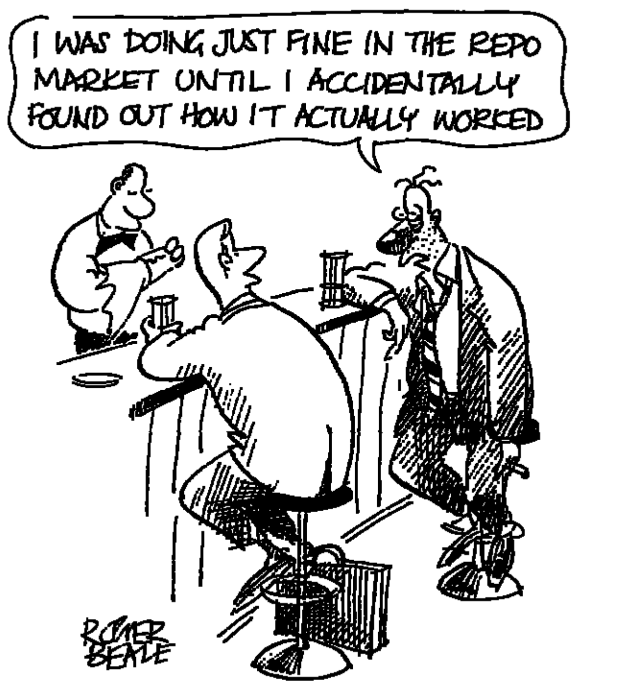
That sounds complicated.
It is. Although a repo has the legal form of an agreement to buy and sell a security, the two parties to the deal see it, in effect, as a form of borrowing, either borrowing money or borrowing securities, usually bonds.

The party which "borrows" money (the seller) obtains better terms than would normally be obtained if they simply borrowed cash because the security which they "lend" serves as collateral and reduces the impact of potential default.

It is somewhat like going to a pawnbroker and borrowing money against personal valuables.

If the borrower goes bankrupt before repaying the loan, the lender retains possession of the collateral partially offsetting their loss. In the same way the party lending the bonds also has security – in the form of the cash.

OK, but what is the difference between repo and stock lending?
Not much really, except that the counterparty to a stock-lending deal may demand collateral in the form of securities as well as cash. Even so, according to the NatWest International Handbook on repo "there are few differences of substance between them, whether legally or economically, and it is likely that over time, the distinctions will become even more blurred."



Nor are there any substantial economic differences between so-called "buy sell back" agreements and what market commentators sometimes describe as "classic repo", although they can differ significantly in legal form and in their mechanics. Classic repos have more formal documentation attached to them.

Are there some repos where the collateral is not physically transferred?
Yes, this is generally to reduce costs. For example, hold-in-custody repo where the collateral is simply segregated in the books of the supplier.

In safe-keeping repo the collateral is held in a segregated account established in the lender's name at the borrower's clearing bank or at a depository. In tri-party repo collateral is held by an independent third party.

How long do repo agreements last?
Classic repos rarely are agreed for terms greater than one year. However, in some repos the term of the agreement is not fixed in advance but simply rolled over automatically on a daily basis.

How are returns worked out?
The repo rate is the agreed rate of interest on the cash extended. Accrued interest reverts to the original owner of the bond but the repo rate takes into account the coupon and yield on the bond. Usually the repo rate is lower than the interest rate on the bond. The lender of the cash makes a return based on the repo rate, the lender of the bond makes a return based on the bond return less the amount made on the cash.

What are repos used for?
In the international markets they have several uses. For securities firms it represents a relatively cheap way of financing purchases of bonds. Unlike banks, securities firms do not have easy access to the inter-bank markets, where banks lend money to each other.

Repo allows them to reduce their costs because the rate at which finance is available through a repo is cheaper than would otherwise be the case. Typically, a securities firm uses repo by borrowing money from a repo dealer to buy bonds which it then deposits with the same dealer to fulfil its part of the agreement. At the same time repos allow dealers to lend money in a way which is similar to placing money on deposit with a bank, although in this case they have the additional security of holding a bond as collateral.

In a sense the development of repo increases the range of short-term money market investments. Investing money in a repo can generate a better return than other short-term money market instruments, such as a Treasury Bill, because the investor runs the risk that the institution which has promised to buy the bond back may collapse and that the price of the bond may drop in the meantime. Money market funds, which have developed extensively in the US and France, where repo is most mature, make extensive use of the repo market for this purpose.

Finally, bond dealers and institutions can borrow bonds through repo agreements to meet short-term trading needs. In the bond markets, dealers frequently take short positions (sell bonds they do not own), when they feel prices are likely to fall.

Una van Dorssen: "There is an extra kicker on repo"

■ **UK:** by Richard Lapper

Traders are starting to catch on

Institutions are showing interest as business begins to grow from a fairly low base

Since its launch earlier this year, the open market in gilt repos has been sluggish. But business is beginning to grow, with dealers and traders becoming more accustomed to the new trading techniques. Documentation and settlement problems are still hampering transactions but there are early signs that institutions are beginning to use the market.

"It has been a slow start because it has taken a number of players time to sort out technical problems such as systems and legal agreements," says Philip Shaw, group economist at Union Discount. "It now appears that the amount of business is growing. It is not phenomenal growth, but it is trickling up."

The new repo market represents the latest phase of a reform programme developed by the Treasury and the Bank of England, designed to increase the efficiency and liquidity of the UK gilts market, bringing its practices into line with those of other large international government bond markets such as the US and France.

Earlier stages of the reform have seen moves by the Bank to introduce bigger and more liquid benchmark issues of gilts, with regular auctions and to provide the market with regular notice of its funding intentions. Last year the Bank launched a market in gilt strips, where the coupon and the principal of bonds are stripped and traded separately. All these changes have been designed to make the market more user-friendly and increase the attractions of gilts to investors, especially from overseas. Ultimately, it is hoped that the extra liquidity will reduce the discount at which UK debt trades and cut the government's funding costs.

Repos should help this process further by making it easier for traders to borrow bonds, allowing them to take short positions. Until the introduction of gilt repo, only the gilt edged market makers were allowed to borrow bonds while stock exchange monetary brokers conducted lending operations. At the same time, the repo market introduces another way for dealers and traders to finance long positions and could eventually reduce costs. Hitherto, dealers had been largely dependent on the money brokers for their finance.

Early repo trading has been hampered by a number of factors. Industry-wide documentation was not available until November, and an important annex to the agreement – which covers detailed issues such as variation margin – must be negotiated bilaterally between dealers and each counterparty. There have also been a number of systems difficulties. As well as accommodating repo, banks and dealers have had to amend their back office systems to bring them into line with the European Union's capital adequacy directive (CAD), which imposes heavy new capital requirements.

One dealer estimated that up to 90 per cent of firms had experienced problems with their systems.

However, repo volumes are now beginning to grow. "In the second week of January volumes were 50 per cent higher than in the first, and in the third week double that of the second, but it is all from a very low base," says Stephen Ward, head of gilts repo at Prebon Yamane, the inter-dealer broker.

Figures released by the Bank of England last week show that by the end of January, the gross totals outstanding on banks' balance sheets (including inter-bank transactions) were some £16bn of repos and some £23bn of reverse repos.

Many of the gilt-edged market makers are active in the repo market and a number of dealers have begun to use it as part of their efforts to play the short-term money market curve.

"Repo traders are beginning to build up 'matched books' (borrowing long-term and lending short-term or vice versa), making short-term interest rate plays," says Ms Una van Dorssen, head of repo marketing at NatWest Markets. "There is an extra kicker on repo since the bonds that you borrow might go 'special', providing extra income."

Institutions such as insurance companies and pension funds, which hold gilts and are active players in the stock lending market, have been slower to move into the market.

They lend out bonds in order to earn extra returns on their bond holdings but do not necessarily welcome the inflow of cash which would result if they were to do this through repo arrangements.

> The new market is part of a reform programme by the Treasury and the Bank of England

"Institutions are still sitting on the fence," says one dealer. "They do not want to cope with the cash flows."

Nonetheless, some bigger investors do appear to have dipped their toes into the water. There are two main attractions. First, the added security of placing cash on the repo market means it is less risky than putting it on deposit with a bank, an advantage which was underlined last year by the collapse of Barings Bank.

Second, institutions are able to net off their stock and cash lending exposure for balance sheet and capital purposes, a practice permitted under the standard industry guidelines.

Spreads in the repo market have begun to fall. When the market was launched, rates closely followed those available in the inter-bank market. But rates have since fallen several basis points, with parties borrowing bonds, lending cash at a rate of between 2 and 3 basis points under the London inter-bank bid rate (Libid).

That means dealers have been able to raise finance at sub-Libid levels, which represents a considerable saving for some players, especially those banks with credit difficulties which would normally expect a few basis points over Libor for funds.

In addition, the activity has led to a reduction in the fees available from standard stock lending agreements. Typically between ⅜ and ½ a point, these have fallen to between 5 and 25 basis points in the past few weeks, according to dealers.

■ **Gilts market changes:** by Graham Bowley

Troubled road to reform

The Treasury is believed to have been the driving force behind the UK's introduction of repos

Once the decision was made to introduce an open gilts repo market, reform has come breathtakingly quickly.

But why did it take so long for that decision to be made – more than six years after most other European countries introduced repo in their own bond markets and 10 years since Big Bang deregulation swept through the rest of the City of London?

Some blame the Bank of England for the delay, some blame market-makers and other privileged operators in the gilts market for resisting the forces of change.

The Bank of England has made its position clear: the existing system of stock lending and borrowing worked well and there was therefore no need to change it – the "if it ain't broke, don't fix it" argument.

In addition, the gilts market was put under severe strain to absorb huge amounts of debt when the UK moved into large budget deficit in the early 1990s. This was then exacerbated by the worldwide bear market of 1994 which pushed bond yields sharply higher.

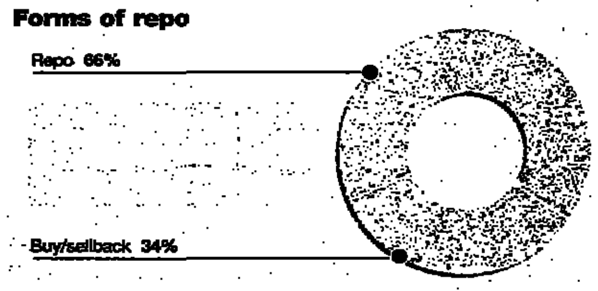
Furthermore, repos were seen as a risk. They had gained a bad name following a spate of highly publicised problems in the US repo market in the early 1980s. At the time of Big Bang the Bank of England decided it was easier to supervise stock lending by insisting that brokers were used rather than introducing a fully liberalised repo market.

Only now, as yields have fallen, as the UK's public sector borrowing requirement has declined and as other repo markets have proven their reliability, has the Bank felt comfortable in turning again to structural change.

But others assign a greater role to HM Treasury as the driving force behind the reforms.

Gilts were hit particularly hard by the 1994 bear market. The sharp rise in gilt yields – at a time when the Treasury was attempting to make cost savings across the whole of Whitehall – suddenly made it very clear to the UK government that it was paying significantly more in debt service costs than many other countries.

Forms of repo



Source: Prebon Yamane (based on a survey between May 29 and June 9, 1995, of 94 banks in Amsterdam, Frankfurt, London, Luxembourg and New York)

Britain's peculiar – some said archaic – gilts market was blamed. In particular, it seemed odd that government bond markets in other countries, including the US, France and Germany, already had well-developed repo facilities. But although London had long been the European centre of non-dollar repo business, the sterling sector had lagged behind its international competitors.

The Treasury initiated a general review of debt management – under some pressure from international banks operating in the gilts market – of which the repo was only one result.

Kenneth Clarke, the UK Chancellor, finally announced the setting-up of the gilts repo market in the November 1994 Budget. At the time he said an open repo facility "should improve both liquidity and efficiency, reducing yields and hence the government's debt interest costs". He calculated that each reduction in yields of one basis point would eventually save more than £25m a year of public expenditure. The yield spread on gilts over French government bonds, for example, has tended to be more than 100 basis points. If this spread could be significantly reduced, it would represent a substantial cost saving.

The Treasury's persistence in pressing on with reform successfully overcame resistance from some gilt-edged market-makers (Gemms) and other large operators in the gilts market.

Many industry observers suspect that it was these which held up reforms for so long since they stood to lose most from any change. They wielded a strong influence within the Bank of England and used it to keep in place the existing market arrangements, which for them were hugely profitable.

Under the old arrangements just a few clearing banks dominated the short-term money markets, while stock exchange money brokers (Sembs), discount houses and Gemms enjoyed privileged lending and borrowing arrangements with the Bank of England in return for maintaining liquidity in the gilts market.

The repo market involved scrapping the requirement that stock could only be lent or borrowed through one of the eight Sembs and abolishing the rule restricting the borrowing of gilts to market-makers and discount houses. Gilt repos therefore represented a challenge to the profitability of all these participants.

An open repo market also meant that Gemms would lose their monopoly of the ability to "short" gilts, or sell gilts they do not own when they feel prices are likely to fall.

The Bank feared that some Gemms would pull out of the gilts market if this unique privilege was denied them, threatening a potentially huge loss of liquidity. Without the unique ability to short the market, the costs of being a market-maker – the duty to maintain continually two-way prices, even in falling markets, for example – outweighed the benefits for some Gemms.

Since the repo market was first announced, several banks have, indeed questioned the need to be a Gemm and some, such as Yamaichi and Nomura, the Japanese securities houses, and Bankers Trust, the US investment bank, have pulled out of market-making. Société Générale, the French bank, on the other hand, bucked that trend when it became a Gemm in September last year.

But in spite of strong opposition from some quarters, the gilts repo market generally found favour with the great majority of market participants and finally came into existence on January 2. Banks applauded the way the Bank of England and the Treasury carefully sought out market opinion during a lengthy consultation process and how quickly the authorities acted once they had decided to proceed with the innovation. They appreciated the longer-term benefits of a fully liberalised system of lending and borrowing, in terms of the greater volume of business it would bring in and increased involvement by overseas investors.

"It took a while coming but now that it has, it has happened very quickly," said Simon Briscoe, UK economist at Nikko Europe. "Very few people at the end of 1994 could have foreseen that within 18 months the market would have changed in the way it has."

■ **Germany:** by Conner Middelmann

Domestic market is struggling

German banks are beginning to recognise the value of collateralised lending

Although the offshore market in D-Mark bond repos is one of the biggest in the world, its domestic market is still struggling to get off the ground.

Participants blame this on several factors.

First, they cite the reluctance of German banks to engage in repos due to their ability to obtain attractive unsecured loans in the domestic and offshore money markets or from customer deposits.

"Due to balance sheet and capital considerations, Germany's leading banks have very good credit ratings and there exist between them unutilised interbank credit lines," says Matthew Keller, global head of repo trading at Deutsche Morgan Grenfell, one of the leading participants in the D-Mark repo market.

"In the past, domestic institutions felt comfortable lending bonds and equities on an uncollateralised basis and booking resulting exposure against interbank limits – especially as collateralised repo transactions have proved expensive and cumbersome for existing settlement and controlling departments within some banks," he says.

However, amid increasing risk awareness in the banking industry, even the German banks are beginning to recognise the value of collateralised lending, dealers say.

"Domestic institutions are increasingly interested in reducing their inter-bank exposure and using collateralised money market products, which can reduce exposure and have a positive impact on capital requirements," says Mr Keller.

If, for example, a bank executes reverse repos in OECD sovereign, government guaranteed or EU supranational paper, a zero-risk weighting applies under the Bank for International Settlements' guidelines.

With bonds issued by EU public entities, international development banks and OECD banks, a 20 per cent weighting applies. For non-OECD sovereign issuers, banks and corporates, a 100 per cent weighting is called for. Thus, repos are a lot more capital efficient than inter-bank business, where operators take up to a 100 per cent hit.

Another culprit is seen to be the Bundesbank's minimum-reserve requirement, which makes German banks uncompetitive in any transaction that requires them to take a cash deposit.

The rule requires any liability taken by a German bank from a non-bank investor or a foreign bank must be secured by a deposit in a non-interest-earning account at the Bundesbank.

Thus the German bank is not receiving interest on the whole of the deposit, which means that the rate a German bank can quote its counterpart as a receiver of cash is not competitive with a bank that does not operate under the requirement.

> D-Mark repos should not be confused with the Bundesbank's weekly open-market intervention

The Bundesbank has cut the reserve requirement in recent years, and in August lowered it to 2 per cent across the board, from 5 per cent for sight liabilities of up to 31 days and 2 per cent for time liabilities of anything over that period. Still, this has done little to help the repo market, and many dealers hope that in the run-up to European Monetary Union the requirement will be abolished altogether.

"If you're doing an unsecured transaction with a customer, holding a minimum reserve against that risk is laudable," comments a London repo trader. "But when it's a collateralised transaction, the requirement is a bit draconian," he adds.

"The trend in the minimum reserve is clearly downwards, and many participants expect that it will eventually be abolished," says Mr Keller. "As and when that happens, it is likely that the bulk of money-market-related dealing activity, hitherto restricted to dealing in London or Luxembourg, will move back onshore."

Simultaneously, he predicts, "it is likely that repos will also shift back towards the domestic environment from a counterparty, booking vehicle and settlement perspective."

Incidentally, the D-Mark repos transacted between banks and other market participants should not be confused with the Bundesbank's weekly open-market intervention, also called "repos".

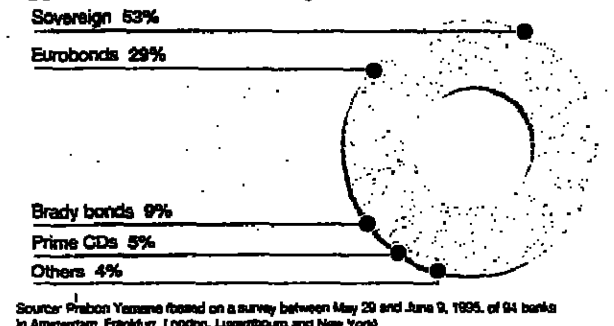
Under this facility, banks borrow money in return for collateral they deposit with the central bank; the volume of outstanding Bundesbank repos stands at present at around DM130bn.

The Bundesbank uses this facility to control the amount of short-term money in circulation, thereby steering short-term interest rates. The operation has become a key monetary policy tool in recent years and the repo rate is now a more important benchmark of short-term German interest rates than the Bundesbank's Lombard or discount rates.

Another factor that has slowed the growth of a domestic repo market is the reluctance among many German fund managers to get heavily involved in the market – partly because they are under little pressure to boost their performance, some say.

"Too many people in Germany are not performance-oriented," grumbles a US investment banker. "If they really wanted to maximise their returns, they would get more involved in this market." In addition, he says, prohibitive transaction costs deter many from getting more involved in the repo market. "If you have to pay an ⅛ point for every transaction, you won't do that for long. The cost structure in Germany is such that it encourages fund managers to buy and hold."

Types of instrument repoed



Source: Prebon Yamane (based on a survey between May 29 and June 9, 1995, of 94 banks in Amsterdam, Frankfurt, London, Luxembourg and New York)

Another deterrent to the development of a liquid domestic repo market is the absence of a legal framework to govern domestic repo transactions. However, spurred by the Association of German Money Market Traders' repo sub-committee, participants are working on a standard agreement that will cover the domestic repo market, based on the PSA/Isma master agreement that governs the London-based repo markets where the bulk of non-dollar repo business is transacted.

Meanwhile, the offshore market has been blossoming. It really got going around 1988, when the London International Financial Futures and Options Exchange (Liffe) launched a German government bond futures contract. This provided the first accessible and liquid instrument for the market to hedge D-Mark interest rate products, which resulted in a dramatic increase in banks' balance sheets devoted to bond trading.

The explosive growth of the German government debt market following German unification further fuelled the development of the repo market. There are some DM990bn of domestic government securities outstanding that can be used for repos.

Since the market is not closely regulated, no numbers are available about the size and depth of the off-shore D-mark repo market. However, bankers estimate it totals some DM150bn, as compared with the estimated DM30bn domestic market – excluding the Bundesbank's weekly repo operations.

There also exists a small repo market in D-Mark euro-bonds, and the last two World Bank D-Mark global issues are particularly actively traded due to a repo market-making facility that was launched in May last year.

The presence of large non-German investment banks with their experience in repo trading made London a logical place to trade D-Mark repos.

There is a clearly defined split of participants operating in the off-shore repo market: the net providers of liquidity – usually European commercial banks with huge deposit bases and central banks – and net providers of collateral, mostly investment houses. The former usually put their cash to work by executing so-called reverse repos, where they lend out their cash and receive bonds in return as collateral. The latter either raise cash to fund their long positions, using their bond holdings as collateral, or borrow bonds to cover their short positions.

However, "being a serious operator in the DM repo markets requires more strategy than just investing surplus liquidity or a desire to finance long positions at attractive rates compared with internal or external funding levels," says Mr Keller. "Ideally, a bank or securities house should be able to integrate both elements of liquidity and securities into a fully blown matched-book repo trading operation," he says.

■ **Repos and regulation:** by Norma Cohen

Learning lessons from the US

Failures in America during the 1980s concentrated the minds of central bankers

The absence for so long of a system of repurchase agreements for gilt-edged securities in the UK can be blamed on events in the US.

In 1985, several small US government securities businesses collapsed while holding millions of dollars of securities under customer repurchase agreements. When the dust settled, it emerged that not only did these companies hold their customers' securities, they held the collateral as well. Still worse, it later emerged that these organisations had offered the same collateral to each of many clients, and then, as a special favour, offered to safekeep it on their behalf.

In exasperation, the Federal Reserve Bank in New York issued a pamphlet entitled "It's 3pm, do you know where your collateral is?".

The 1985 affair was not the first significant fiasco involving repurchase agreements in the US. In May 1982, Drysdale Government Securities collapsed, sending shock waves through the US banking system. It had been borrowing US Treasury bonds at a time when interest rates were close to 14 per cent. The collateral that it provided to its counterparties did not include enough to cover the interest which was accruing while the bonds were out on loan. Banks lost hundreds of millions of dollars.

> UK regulators have taken steps to avoid US-type failures

Later, a government bond firm, Lombard-Wall Securities, collapsed while holding customer securities under a repurchase agreement arrangement. Following legal procedures it emerged that the organisation's customers were not fully protected even though they held collateral against the securities they had loaned to Lombard-Wall. The courts ruled that those which had loaned securities to the organisation ranked no higher than any other secured creditor and that collateral had to be put into a general pot to cover repayments to all other secured creditors.

These shocks to the system in a three-year period concentrated the minds of market participants. They also made a tremendous impression on central bankers around the world not least of which was the Bank of England. The Bank was then implementing significant reforms to its own gilts market.

However, repurchase agreements, the primary mechanism for financing holdings of US Treasury securities, would not emerge in the UK for another 10 years.

"The view was only three miracles at a time," said one former Bank official. He explained that the Bank believed that too many innovations at the same time would swamp the market's capabilities. "But also, it was the proximity to the problems in the US which deterred us," he said.

Bank of England officials were keen to ensure that the UK a repo market would avoid the spectacular failures of the US market.

Fortunately, the Bank has not needed to tinker with the UK regulatory framework. Repo is an activity governed by the Financial Services Act and only those authorised by regulatory bodies are allowed to participate.

But to ensure that everyone played by the right rules, the Bank has taken three steps. First, it established a working party to draw up a clear legal agreement which, among other things, would address the legal ambiguities which hit Lombard-Wall's customers 10 years ago. The document is similar to that drawn up in the US by the Public Securities Association and the International Securities Markets Association. However, it differed from the US version by stating that a repurchase agreement was an outright sale and that legal title to the securities actually passed to the borrower. Thus, in the event of a default the lender's collateral is unencumbered because it is treated as the proceeds of a sale rather than as collateral.

Next, the Bank established a committee with the International Securities Market Association (ISMA) to ensure that settlement practices were uniform. Third, with ISMA it developed a code of best practice. While it cannot insist that the rules are followed it urges participants to deal only with counterparties which abide by the code of practice.

Parts of the code are straightforward recommendations on general good business practice. For instance, counterparties shall keep each other's names confidential; participants must accept responsibility for the actions of their staff, and, where conflicts of interest cannot be avoided, market professionals should ensure fair treatment for their clients.

In addition, the code stipulates that counterparties should ensure that adequate credit checks are conducted before entering into an agreement, and that participants should ensure that both they and their counterparty clearly understand terms for lending. While these conditions seem patently obvious, it was their absence which helped to create spectacular failures in the US.

Ms Catherine Bennett, head of the repo desk at Salomon Brothers International and head of the ISMA committee which helped draft the code, notes that there are certain recommended practices designed specifically to avoid the conditions that had allowed some US organisations to offer the same collateral to several counterparties. "We have a hold-in-custody rule saying that if you are to allow the borrower of your securities to hold your collateral as well, then the regular know-your-customer applies."

The gilts repo market is still too new and too small to know with any certainty that it will avoid the US-type clashes of the last decade. But at least regulators and market participants have highlighted those activities most likely to cause damage and have taken steps to address them.

US: by Christine Moir

Consolidation on the cards

The continued squeeze on margins may lead to a shakeout over the next two years

The US repo market – by far the most mature of any in the world – may be at the start of a period of consolidation. High profile scandals, such as the bankruptcy of Orange County as a result of its treasurer's investment strategies, plus the continued squeeze on margins has caused some participants to question whether they should remain in the market. Appetites for more exotic instruments have certainly been curbed.

Lou McCrimlisk, a repo specialist with Salomon Brothers, is dismissive of the "knee-jerk" reaction to the losses at Orange County which induced the market briefly to declare repos an unsafe strategic instrument.

"Orange County's losses did not reflect anything inherently wrong with the repo market, but rather Robert Citron's over-leveraged exposure to the highly volatile interest rate sensitive securities that he was financing," says Mr McCrimlisk.

He insists that the market is too important to quit. "A company of Salomon Brothers' size requires access to an efficient source of funding: repos give us this". Other traders agree that the leading US houses will continue to support the market but are concerned at the low levels of returns available in what is a demonstrably mature market.

Lenders are typically looking at less than 50 basis points as their fee for making US Treasury Bills available to borrowers. With the Federal Reserve also busy cutting interest rates at present, lenders are making less from investing the typical 102 per cent collateral borrowers put up in a repo contract.

One of Mr McCrimlisk's colleagues in New York summed up his views by saying: "Salomon may turn away some business rather than cut rates any further but it will stay in the market."

Hedge funds are still nervous after the bloodbath in global bond markets in February 1994

Jack Huber, global sales manager for financing sales at Lehman Brothers in New York, believes: "The continued squeeze on margins will lead to a shakeout over the next year, possibly two, but those remaining will find new niches in a market which still has plenty of room to develop."

Judy Mabry, head of Lehman's repo desk in London, echoes his views. "The repo market is highly efficient, which explains the narrow margins," she concedes, "but I think it still has many possibilities. It remains a natural market for hedge funds which must find ways of financing their short positions."

What the hedge funds think is crucial to the future of the repo market. In the mid-1980s only about 100 of them were to be seen in the US repo market. By 1990 their number had risen to 400. Today there could be as many as 4,500.

And some of them are very large indeed. Hedge fund managers, such as George Soros, the Hungarian financier, and Julian Robertson of the Tiger Fund, have sufficient financial muscle to drive the cash market in bonds by their moves in the repo market.

Hedge funds are still nervous after the bloodbath in global bond markets in February 1994 when most misread the direction of currencies and interest rates and their complex derivative strategies, even supported by repo and securities lending buttresses, failed to protect them from painful losses.

Although the hedge funds returned to profit last year, investors no longer believe that managers can devise effective strategies to shield them from losses if they take huge punts on the direction of markets or interest rates, according to London-based Tass Management which monitors the performance of hedge funds worldwide.

Most have adopted more cautious investment strategies, concentrating on securities lending based on individual stocks in which they have personal expertise.

All of these moves have put a brake on the near vertical growth of the US repo market, dominated as it is by US Treasury Bills.

Initially the only acceptable collateral was simple cash. Then T-bills themselves became *de rigueur*. As investors' sophistication grew and spreads and yields came under pressure, they turned to other forms of commercial paper, such as corporate bonds and even mortgages, as collateral but demanded a premium to compensate for the perceived extra risk of unsecured securities.

The more cautious approach now being adopted by many lenders, is reinforcing a return to greater reliance on T-bills and cash collateral. This may leave some of the fancier recent contracts out in the cold during this conservative phase.

The Orange County backlash has also had another effect. According to Lehman's Mrs Mabry everyone is now scrutinising their counterparties with extra care and checking that the trades they propose are suitable for that particular counterparty.

When Orange County was forced to renege on its contracts some counterparties found that their bankruptcy protection arrangements excluded bankruptcy of a local authority. It was a salutary lesson.

This extra scrutiny may be just what the market needs to resume growth if it refocuses attention on the twin virtues of repos as a source of finance: namely, that the funds are doubly protected by the underlying instrument – sovereign debt – and a good-quality counterparty's desire to maintain its credit rating.

These virtues are the strength of the repo market for both borrower and lender. They are also what makes it so efficient – and consequently low yielding.

High volume is the classic compensation for meagre margins. If the market is in for a period of low growth some will get hurt.

Brokers are thought to be the most vulnerable group. Sucked into the burgeoning market in their droves, competition among them is already fierce.

Now they face the extra assaults of less dizzy levels of demand and a squeeze on fees which must be paid for out of the lender's lower interest rate yields.

On top of this they face a further consequence of the repo market's continuing maturation: disintermediation.

Increasingly lenders and borrowers have done business together before and have no need of a broker's introduction.

Disintermediation in turn might reinforce another consolidating factor already apparent in the market: its concentration into fewer and larger hands.

Borrowers are already turning just to the most prime covenants as their lender of choice. Before long, some observers have said, the class of lenders will have shrunk to a self-limiting oligarchy.

That time is not yet and it may be permanently averted by the inevitable extra factor. The US repo market may be fully-, even over-mature.

But the money market is a truly global one and repo markets elsewhere are just emerging.

Lehman's Mr Huber predicts that Asia, Central and Eastern Europe and even Latin America could become the next repo centres if conditions get too tight in the US market.

Judy Mabry: "The repo market is highly efficient, which explains the narrow margins" Picture: Trevor Humphries

France: by Andrew Jack

More liquid than London

Concentrating on government bonds, Paris is now one of Europe's most important centres

Among the success stories of the Paris financial markets in the last few years, the development of repos in France is one of the most impressive. From modest beginnings in the late 1980s, it has rapidly grown into one of the most important centres in Europe.

The idea is simple. As in other markets, treasury bonds, bills and gilts – as well as theoretically other forms of securities – are offered as collateral against cash, and then "repurchased" at a future date for the same sum plus an additional interest payment.

In France, the market is very largely concentrated in government bonds, and most deals are of short duration, with many geared to overnight money market rates and some three-quarters expiring in less than three days.

The market is concentrated in government bonds, and most deals are of short duration

The country's domestic market has become so large that – alone in Europe – it is more liquid than the international cross-border market principally centred in London.

Figures show that the volume of transactions has exploded: from a daily average of FFr300m in 1990 to one of more than FFr45bn in 1994, with the total outstanding FFr1,040bn at the end of 1994.

"The market is more liquid than in other countries," says Ludovic Plas of UBS. "Without any chauvinism, France is the market of reference and technically in advance."

Thomas Morand of Crédit Lyonnais says that the market fluctuates considerably. "A lot of players have been badly beaten by the volatility of the market. They have become a lot more cautious about it."

That is one reason why a bank is often very active for a period of several months, and then may reduce its positions, he says. However, Crédit Lyonnais made profits of FFr10m in January alone from the French market. "The repo market is the big market for the future," he says.

The French market began to develop pragmatically largely from 1987, using conventions under the *réméré* system, governed by the jurisdiction of a 19th century law which permitted the option to sell and then buy back securities.

It operated relatively effectively until 1990, when a German bank decided not to honour the buy-back clause – as it was legally entitled to do under the law – hence throwing the market into confusion.

A lengthy battle in the courts followed, and the government embarked on defining a series of steps to help clarify the market for the future, culminating in a new law at the end of 1993.

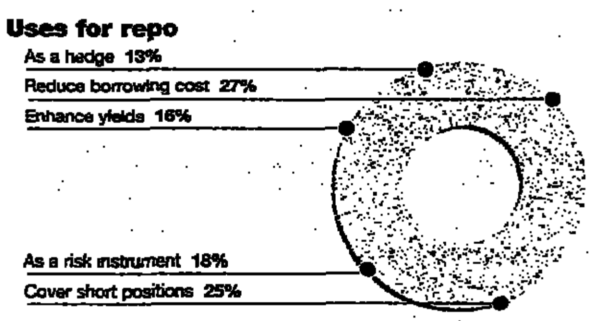
The result is the clearly and legally defined *pension livrée*, under which repo transactions in France are now carried out. It is supported by a compensation system agreed during summer 1994.

Mr Plas says part of the explanation for the size of the French market is that there are no limitations on the size or duration of contracts. There is also a structural factor: the huge amount of business from the substantial French money market funds, which have little choice but to carry out repo operations as part of legal obligations concerning the risk profile of their investments.

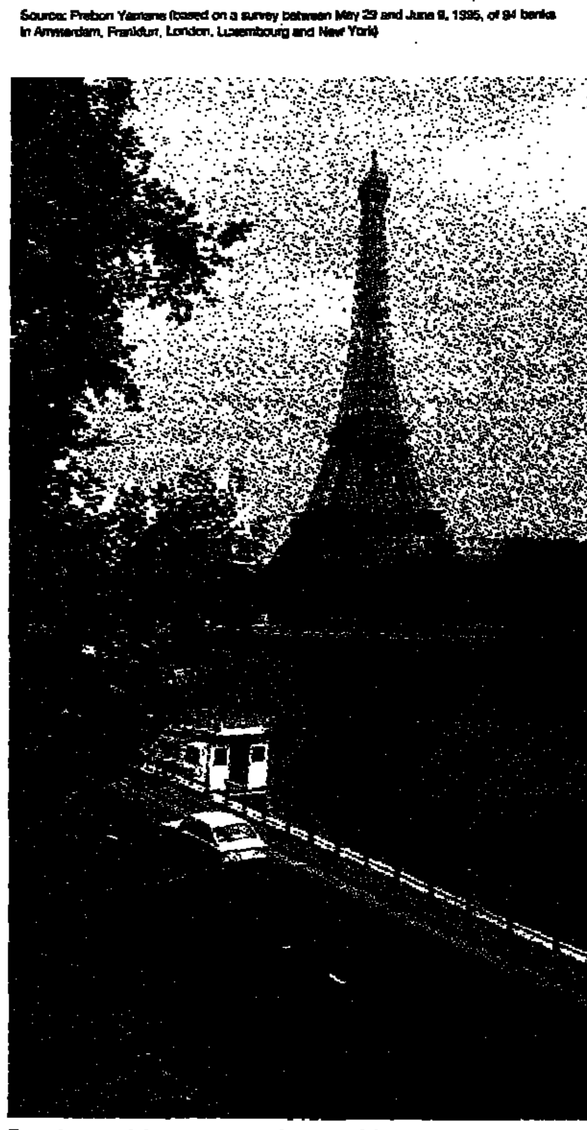
He says that the high degree of transparency and liquidity in the market can also pose problems. He highlights the attack on the French franc during the European monetary crisis in 1993.

"You can sell repos with no constraints," he says. "Non-residents mobilised very important sums."

Equally, he says the lure of business in Paris has led to rising competition from market makers, which has helped considerably to cut margins. "It was the first market in Europe, and became *à la mode*," he says.



Source: Prebon Yamane (based on a survey between May 29 and June 9, 1995, of 94 banks in Amsterdam, Frankfurt, London, Luxembourg and New York)



Repo is one of the success stories of Paris's financial markets

Japan: by Emiko Terazono

Move to create a new market

The missing links in the Japanese financial system are likely to be in place by April

Japan's finance community is scrambling to piece together a framework for a new bond repurchase agreement market due to be launched in April which could handle an estimated Y210,000bn ($1,981bn)in outstanding government bonds.

The need for more risk-free bond settlements and a repurchase market increased in the wake of the collapse of Barings, which had borrowed a large amount of bonds from Japanese banks. The Bank of Japan is also looking for ways to diversify its money market operations.

The country's bond traders deal in two markets which are in effect similar to the western repo market. One is the *gensaki* market, which is an over-the-counter repo market in that borrowing is effected by selling a bond for a fixed period of time with an agreement to buy the bond back at a specified price.

The borrowers in the market are bond dealers at banks and other financial institutions who use the market to finance their positions, while the main lenders are businesses and investment trusts which need to invest their cash. The Bank of Japan also uses the *gensaki* market as a means of controlling liquidity in the money markets.

The *gensaki* market used to be important as the leading market in which interest rates were set freely without the control of the Bank of Japan, but the liberalisation of other money markets has lessened its significance.

The Bank of Japan is seeking ways to diversify money market operations

The downside to the market is also that the borrower of securities cannot specify which bond is wanted, making the *gensaki* a general collateral market. The *gensaki* transactions are also subject to a securities transaction tax, which the seller of a bond – in this case both the borrower and the lender – is required to pay.

The second type of transaction through which bonds are borrowed and lent, is the bond borrowing, or *taishaku* market. Although it is also loosely called the repo market, it is different from a "real" repo market in western terms since only a fee is paid to use the bond rather than the borrower exchanging money equivalent to the value of the bonds.

This is a result of the limited settlement dates of the Japanese government bond market, where bonds are settled on the 5th, 10th, 15th, 20th, 25th and 30th of each month. Settling of bond transactions therefore takes seven to 11 business days after the actual deal is made. Since the borrowing and return of a bond is likely to be finished before the settlement date arrives, the borrower simply pays the lender a fee for the bond. Because the bond borrower does not pay for the bond, the transaction is exempt from the securities transaction tax.

Although lending can take place either against cash collateral or unsecured, most transactions done directly with lenders are unsecured. While this has minimised back-office work for the lenders, it has increased the lender's risk.

When Barings collapsed last year, the banks and institutions which had lent bonds to its Japanese arm for a fee faced losses. Although the banks were reimbursed, there were calls for a more efficient and risk-free settlement system.

In a related move, bond market participants want the settlement period shortened in line with the Eurobond market, where transactions are settled three days after a deal.

Many bond market participants applaud the creation of the new repo market. "It will put in the missing links in the market and place the Japanese government bond market in line with world practices," says Marshall Gittler, bond analyst at Merrill Lynch in Tokyo. He points out that a more efficient repo market will allow easier shorting of the bond market which helps to reduce anomalies in bond prices.

The new repo market is likely to be a combination of the *gensaki* and the bond borrowing markets. Like the *gensaki*, it is likely to involve an exchange of money approximately equivalent to the value of the bonds.

However, since the transaction will not legally be a sale of the bond, a transaction tax will not be required. The lender acquires short-term funds and receives a lending fee when the bonds are returned.

Analysts expect the liquidity and the size of the new repo market to result in the Bank of Japan using it for its money market operations. Rates of participating in the new market are likely to be cheaper than in the *gensaki* market due to the lack of transaction taxes, and since the rates are quoted as interest rates as opposed to a lending fee, the rates will be comparable with other market rates making arbitrage easier.

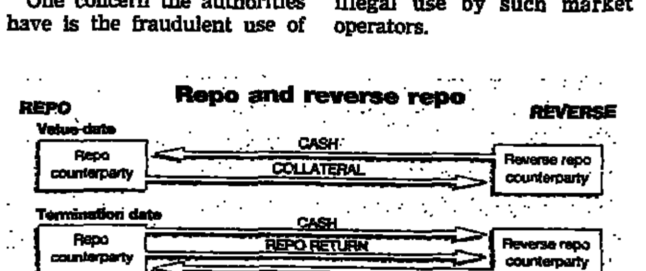
One concern the authorities have is the fraudulent use of the new repo market by bond holders who want to avoid paying the securities transaction tax.

The ministry of finance had initially required borrowers in the bond borrowing market to pay a fee of over 100 basis points over the overnight call rate in order to prevent such cases.

However, this has been abolished recently since 100 basis points is unrealistically high at a time of record low interest rates. The ministry says it has yet to find a method to prevent illegal use by such market operators.

The Tokyo financial community is applauding the creation of the new repo market in April

Repo and reverse repo



Example

Trade date	June 8
Value date	June 12
Termination date	June 13
Seller	Securities House
Buyer	Bank
Term	Overnight
Security	Bund 7.5% 11/11/04
Nominal amount	DM 10,000,000
Clean price	106.00
Accrued interest	4.395833
Dirty price (rounded)	110.40
Cash payment (purchase price)	DM 11,040,000
Repo rate	4.5% p.a.

Source: NatWest Markets Handbook of International Repo

In this classic repo, Bank agrees to deliver to Securities House DM11.04m cash in exchange for collateral in the form of DM10m of a 7.5 per cent coupon Bund maturing November 11, 2004 with accrued interest of DM43,958. The cash amount reflects the market value of the collateral, and a return on the repo monies at a rate of 4.5 per cent per annum will be paid to the cash supplier.

On value date, Bank pays DM11.04m to Securities House, which in turn transfers Bunds with a nominal value of DM10m to Bank.

The next business day, Bank returns the Bunds to Securities House and Securities House repays to Bank the original cash amount of DM11.04m plus one day's return on that cash at the agreed repo rate of 4.5 per cent per annum. The return is calculated as:

DM11.04m x 4.5/100 x 1/360 = DM1,380

■ **Equity repo:** by Brian Bollen

Baby with a big future

This money market instrument is still in its infancy, but could offer a good risk-reward ratio

Could equity repo be the next big money market instrument? Although it is still very much in its infancy and could take time to become a household concept, some say this new kid on the financial block could well offer the best risk-reward ratio over the next few years.

With London as the hub of activity, equity repo is picking up a head of steam worldwide. "It's a major education process," says Mark Harrison, an executive director at Morgan Stanley in London, "but the US houses are looking to finance their inventory, and this develops into a financing business in its own right."

"Equity repo represents another step in the market's journey along the collateral quality spectrum, from US Treasury bonds, through European sovereign and eurobond repo, to Brady bonds and tri-party structures. Such progress has been driven partly by the liberalisation of markets, partly by the constant desire to develop new premium-priced *products and partly by the* drive to make as many assets as possible pay their way. There are strong indications that after taking into account all the constraints and caveats, market professionals in the UK have decided to grasp the nettle and do their best to establish a viable equity repo market within the existing legal and fiscal framework.

In most important respects, equity repo is identical to fixed income repo. On one side are firms such as Goldman Sachs, Lehman Brothers, Morgan Stanley, Salomon Brothers and Merrill Lynch seeking to finance their long equity positions. On the other side are cash-rich investors, for whom equity repo offers a higher yield for lower risk using a straightforward mechanism; the collateral aspect means business can be done with a wider range of counterparties who might not qualify under normal credit criteria.

There are a number of fiscal, philosophical and practical reasons why repo is only now extending to equities.

■ It is very easy to do a repo on a bond, partly because the cash flows are known in advance; this is not the case with equity.

■ While bonds do not in the main experience corporate actions, equities are quite frequently subject to stock splitting, rights issues or other events which can affect the original value dramatically.

■ Equities are intrinsically less liquid and more volatile than bonds (which results in bigger haircuts – the amount by which the market value of the securities repoed exceeds the cash amount involved – than in fixed income repo).

■ Narrow spreads mean it can often be cheaper and easier to borrow a stock than to repo it.

> UK market professionals are trying to establish a viable equity repo market within the existing framework

Problems arise, too, from anti tax-avoidance legislation which was originally written for other purposes. UK tax legislation – designed to prevent dividend washing, for example – makes it very unfavourable to repo an equity over the dividend date. In an extreme case, argue bankers, dividends could end up being taxed twice. The convention of the market, unless otherwise agreed, is thus to call equities back over the dividend date. This severely reduces the flexibility of the equity repo product and its strategic possibilities.

"It's not a pair of handcuffs, but it's like putting a couple of rocks in your pocket," says Joseph McManus, an executive director at Goldman Sachs International. "It slows you down."

Even the very term equity repo is in dispute, being seen as something of a generic term for equity financing. "The financing takes four forms, repo itself, buy/sell-back, equity swap and the zero-strike option," says Mr Harrison. "All achieve the same net effect."

At this early stage – equity repo as a product has been around for little more than a year or two – there are vast differences in volume between it and fixed income repo: deal tickets are smaller and terms are shorter. Deals also tend to be more opportunistic than in fixed income. "There's a lot of talk, but not much action," remarks Brian Dry, head of securities lending at Royal Bank of Scotland. "A big trade in equity can be a small ticket in fixed income," says Mr McManus.

The greater diversity and volatility of the underlying collateral are also, it has to be admitted, something of a negative. "If you had the choice between AAA-rated government bond collateral and unrated corporate collateral, which would you choose?" asks Mr McManus. "The strength of the credit and the typically higher yield over traditional money market instruments are what clinch the argument," he continues, answering his own question.

Other factors hindering the development of the equity repo market include the lack of standardised documentation. "Repo documentation is for securities paying interest on a gross basis, not dividends on a net basis, so you have a documentation issue straight away," says Rod Barr, manager of Salomon Brothers' securities lending desk in London. "You have to have your own, and that can take months."

Standardised documentation is essential for repo, a high-volume low-margin business. "We don't want to repeat the early days of securities lending when everyone was using different documents and paying lawyers a lot of money," says one banker.

Under the auspices of the London Investment Bankers Association, a working group is now working positively towards a market standard, which will essentially be an amendment to the standard PSA/ISMA master agreement used for fixed income repo. The industry wants to avoid making the mistakes that occurred with securities lending, and the enthusiasm evident among the principal parties involved makes a quick move to industry-standard documentation more likely. This can only help the market's further evolution and development.

PROFILE: NatWest Markets

Trying to be a little different

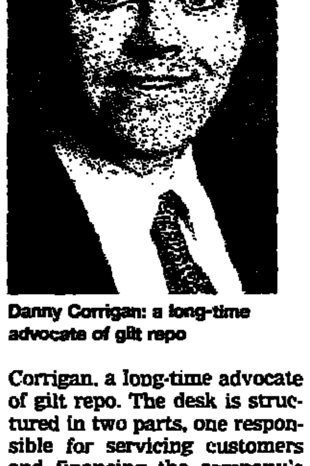
In the right hands, it seems, repo is no longer just about the lowest cost; it is maturing and becoming more sophisticated. Traditional repo is essentially a high volume, low margin commodity product, identical from bank to bank *and selling purely on price.* This can make it extremely difficult for an institution to offer a product which is different from the rest of the pack. NatWest Markets believes it can do just that with an approach that will help it establish a leading position in gilt and other repo markets.

Repo means different things to different companies, says Danny Corrigan, head of repo at NatWest Markets. "We believe the use of the product is more important than the product itself. Repo is an essential part of our inte*grated treasury and capital* markets activities, not necessarily a stand-alone business in its own right."

NatWest has been trading repo in a number of currencies since 1990 and, while repo does not lend itself as readily as some other financial markets to league tables and rankings, regards itself as a leading operator in the field in the UK. NatWest might not be the biggest marketmaker in repo but it aims to be one of the most effective, especially in gilts where being a top six gilt-edged marketmaker *should be a significant asset* in maximising returns.

The NatWest repo desk in London has been built up over the past few months in preparation for the introduction of gilt repo, and now boasts six on the market-making side and two on proprietary trading, plus support staff. Like most repo desks, the mixture is one of home-grown staff and talent recruited from elsewhere to plug specific gaps.

Una van Dorssen, Stuart Neie and Ian Lincoln have all *arrived over the past few* months, from SG Warburg, Swiss Bank Corp and TSB respectively, to join Danny Corrigan, a long-time advocate of gilt repo. The desk is structured in two parts, one responsible for servicing customers and financing the company's own gilt-edged market-making position, the other for propri*etary activities.*



Danny Corrigan: a long-time advocate of gilt repo

NatWest not only provides clients with up-to-the-minute information on events, trends and developments in the market, it also aims to educate clients about repo and provide *them with strategic guidance* on its use.

The last quarter of 1995 could prove in the long term to be almost as important as the first quarter of 1996 for repo operations at NatWest Markets.

It was then that as part of *its ambitions to be a top 10* global investment bank, the company brought under common management the debt securities business transacted in NatWest Capital Markets with the Treasury business.

"Two markets are moving closer together – bond markets and money markets," says Brian Larkman, the head of UK money markets at NatWest.

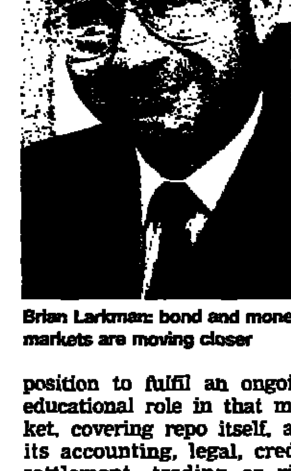
"This merger has essentially cleared reporting lines to enable those businesses to relate very openly and naturally to each other; it reflects *the integration of the markets* themselves and the needs of the customer base."

"Repo bridges the gap between bond markets and money markets, and is a strong integrating influence," says Mr Larkman.

"It is appropriate that it should be situated in a way that services the bond business and relates directly to the existing money businesses; we can do that more easily having changed our structure. The merger will have quite profound benefits for the longer term potential of the business."

"We find there is a lot in common with other money market products," says Mr Corrigan. "Each repo trade can either be cash-driven or bond-driven. As the barriers *between the banking and securities businesses are broken* down, repo will settle either more towards traditional money market operations or more towards bond operations, depending on the institution." Traders at other companies will welcome clari*fication*

NatWest's involvement in the run-up to the introduction of gilt repo puts it in a good position to fulfil an ongoing educational role in that market, covering repo itself, and its accounting, legal, credit, settlement, trading or risk implications.



Brian Larkman: bond and money markets are moving closer

As one of the chief propo*nents of gilt repo, and as a* member of every Bank of England working party on the topic, NatWest built up an in-depth knowledge of the product and the market.

The ability to field in-house *experts for every occasion has* made it an active participant in, and arranger of, conferences and seminars. The company has even produced a text book on gilt repo and is satisfied with both the early progress since the market was launched and the prospects for *future development.*

While size is an undoubted factor – if only because it helps makes assembling teams of experts affordable – there is more to it than simply being very big. Agility, flexibility, *responsiveness and systems* count, too.

"We've developed our own in-house system to support and extend our capabilities in bonds and repo," says Mr Larkman. "The demands of dealers for management information are always growing, and one of the strengths in the system is it can be adapted and extended effectively to cater for these growing demands."

NatWest does not envisage much of a delay in pressing ahead with the expansion of its repo coverage. "Merging repo with money markets *will* enable the existing money markets business to participate more fully in the repo product in those currencies in which we already have a substantial presence in the inter*bank market," concludes* Mr Larkman. "We have to complete this merger as a first step to make sure we are extracting maximum value from our gilt repo operations; we will be ready to broaden *the currency range later in the* year."

Brian Bollen

PROFILE: Mick Chadwick of UBS

More essential than ever

"Don't look at what a repo desk gives you; look at what the lack of a repo desk denies you." This is maybe not quite US presidential rhetoric, but the point, as made by Mick Chadwick, the evangelical senior repo trader at Union Bank of Switzerland, is clear. Repo not only lives, it is possibly more essential than ever.

Repo and other sophisticated financial instruments might have been expected to suffer from the series of high-profile financial disasters and scandals over the past few years – from Maxwell to Daiwa via Barings and Orange County – but, argues Mr Chadwick, "when the fundamental product is sound, markets bounce back better than ever."

Repo has been unfairly blamed in a number of cases. Repo was not the problem; it was the use to which it was put. One of the benefits of doing repo in Europe today is that we can draw on years of experience in the US.

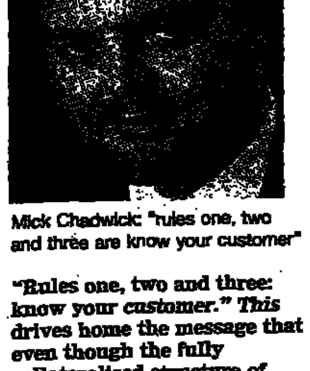
"Repo is important as a product in its own right, but just as significant is its importance for a wider variety of trading structures. You couldn't have an options business without a repo desk; you couldn't have proprietary trading without a repo desk; you couldn't provide derivatives or undertake any form of relative value trading without a repo desk."

There is at least one other significant benefit of repo trading. Fund managers who keep their lending and financing operations at arm's length will find their market intelligence is inevitably diluted. It seems that the closer the repo business is to the bond business, the better for everybody.

Mr Chadwick identifies three important variables that determine repo rates when repo is used as a money market instrument (otherwise known as the general collateral market).

First, the counterparty risk; second, collateral; and, third, (often overlooked) the mechanics of delivery. Each of these has a simple key. In the first, it is "know your customer". In the second, "liquidity is more important than creditworthiness". In the third, "possession is nine-tenths of the law".

Know your customer is a phrase which he repeats as something of a mantra.



Mick Chadwick: "rules one, two and three are know your customer"

"Rules one, two and three: know your *customer.*" *This* drives home the message that even though the fully collateralised structure of repos enables lenders to do business with a wider range of counterparties, it does not remove the need for good old-fashioned credit assessment. Very traditional bankers and modern repo traders do have something in common after all.

That repo can enable lenders and borrowers to carry on doing business with one another in otherwise impossible circumstances was amply demonstrated in the wake of the Mexican peso crisis. Normal, unsecured commercial lending to certain parties was out; repo was certainly in.

Opportunities and dangers go hand in hand in the repo market, says Mr Chadwick. Growth in emerging markets business and the increasing use of derivatives – if not properly understood, monitored and controlled – provide two examples.

The emergence of more intelligent and creative people, with new toys to play with, is another, and reinforces the need for effective monitoring and control procedures.

The repo market is today moving on to a much more professional footing, he argues, with the qualities required of repo staff changing as the product *moves out of the back office.* Settlement, which ultimately drives the repo transaction, requires a certain set of skills. But the narrowing of margins and increasing technicality of the business demand that today's successful repoists be masters of several trades. "You have to know about money markets, about settlement, about bonds, derivatives, credit and the law," he says. Not to mention being able to envisage the broader canvas. The nostalgia for the market's good old days – all of five or six years ago – is almost tangible.

UBS, which functions as a borrower, lender and intermediary in the market, will be focusing closely on two important growth areas for repo in the near future. The first is gilts, reflecting the bank's status as a gilt-edged market maker and as an active participant in all the sterling markets.

The second is emerging markets, where the last surviving significant expansion and wider margins are to be found.

"You can no longer make a living out of the bid-offer spread in the major G7 government bond markets," says Mr Chadwick. "Conceptually it's possible to repo any security, and the US and European markets are so efficient that anomalies have been arbitraged out." So far, the search for a higher payback has mostly taken UBS into repoing Brady bonds for Latin American names. It is also starting to do business in eastern Europe, Russia and South-East Asia.

Mr Chadwick concludes with another mantra: RTLC, or remember tender loving care. R is for regulatory, T is for tax, L is for legal, C is for credit.

"Do proper due diligence in these areas, and repo is *intrinsically one of the safest* vehicles around."

Brian Bollen

Tri-party repo: by Brian Bollen

Europe takes to tri-party

The advantages are a lower cost of funding, ease of collateral movement and reduced administration

International tri-party repo is becoming fashionable in Europe. Average daily outstandings, estimated at $20bn to $25bn, are forecast to continue growing to $35bn-$50bn by the end of the year. This is still low compared with other forms of repo, but the prospects for further, exponential growth are seen as brighter than might have been the case just six months ago.

The Bank of New York in London – one of the three leading multicurrency tri-party custodians along with Cedel and Euroclear – says it has seen its volume of outstandings more than double in the past year. "There is a greater understanding of repo and what it can do for you," says Chip Davy, vice-president and product manager for repo services at Bank of New York. "Business with existing customers has risen, and large multinational corporations are coming in as investors of cash. They bring to the relationship a range of currencies, and are attracted by the combination of a collateralised investment and the higher return."

"The market has had its share of false starts since the first publicised tri-party repo arrangement was put in place, between Swiss Bank Corp and the EBRD," says Sabeed Awan, manager, repo products, at Cedel Bank in London. "The agreement – signed in September 1992 with Cedel Bank as custodian – was greeted with a great deal of enthusiasm by the broker-dealer community. They saw tri-party repo as a new way to bring extra and fresh sources of cash into the markets."

After a promising start, tri-party repo suffered along with the rest of the fixed income markets throughout 1994; staff charged with its marketing have found the teething problems frustrating because they regard the product as virtually faultless.

Tri-party repo is an agreement between a bank, a client and a third-party clearing house or custodian bank. The third-party clearing house or custodian bank agrees to assume the administrative pressures involved in repo. This includes handling all operational tasks, including marking to market, ensuring that collateral meets eligibility criteria and safeguarding the securities in a segregated account. Custodians also handle the movement of securities and cash between counterparties.

From the investor point of view, tri-party repo is claimed to be the easiest and safest way for clients requiring delivery of collateral to enter the repo or the secured pledge markets. Advantages to the cash investor include incremental income and an increase in returns coupled with a reduction in risks and costs. Documentation is written to protect fully the cash investor's right to the collateral in the event of counterparty insolvency. In addition to commercial banks, the main cash investors include central banks looking for a secure and liquid money market alternative, and a growing number of corporates seeking liquidity and yield-enhancement.

For dealer-brokers, the advantages include a lower cost of funding, ease of collateral movement and reduced administration. "Given the size of our balance sheet, tri-party repo is a necessity," says Lou McCrimlisk, European product manager for finance products at Salomon Brothers, one of the biggest users globally of tri-party repo products. "Operational support is worth its weight in gold."

Although tri-party repo is not a panacea – credit risk, collateral risk, market risk and operational risk will grow as the universe of counterparties and securities deemed eligible expands and diversifies – it is obviously safer than hold-in-custody repo.

Tri-party is thus beginning to achieve the recognition its advocates feel it deserves. "Tri-party repo has won over the constituency it was aimed at," says Peter D'Amario, head of repo marketing at BZW. "Once you explain it to corporate treasurers, they understand the added value. It gives them the simplicity of bank deposits plus collateral and a yield pick-up with no more work other than setting up the agreement."

Saheed Awan: a new way to bring fresh cash into the markets

The only apparent losers are commercial banks who are missing out on cheaper cash deposits and more remunerative unsecured inter-bank lending, but what they lose on these swings they gain on the roundabouts. As principal cash investors, commercial banks themselves benefit from tri-party repo's greater security and ease of use.

If anything, tri-party repo's promise of greater security and a higher return can at times seem too good to be true, but the growing acceptance of the standard repo product has paved the way for the important international breakthrough which looks to have been made, and the two are linked in a virtuous circle. "The growth of tri-party repo will be linked to the growth of repo, and the growth of repo will be helped by tri-party," says Ms Christine Kamil, vice-president in collateral management services at Euroclear, who reports current outstandings of around $15bn. "Tri-party repo is an elegant solution to the complexities of efficient collateral management; it combines the safeguards of delivery repo with the ease and flexibility of hold-in-custody repo."

The renewed enthusiasm for the tri-party product forms part of a growing trend in banking towards collateralised relationships, after Barings and Orange County.

The publicity surrounding the opening of the gilt repo market has provided further impetus; the broader interpretation is that the Bank of England has effectively given its blessing to repo in all its forms as a concept. Technical changes including the approval of the international clearing of gilts from March 4 can only help.

The market for repos: by Antonia Sharpe

The haves and the have-nots

The demarcation between the two camps is expected to disappear gradually

Broadly speaking, the big operators in Europe's fast-growing repo markets are divided into two camps: the haves and the have-nots.

The haves are the big banks which set their excess liquidity to work in the repo markets through "reverse repos" – that is, they lend their cash and receive bonds in return as collateral.

The biggest operators in this camp are Europe's big universal banks, notably the triple-A rated Deutsche Bank and Union Bank of Switzerland with their huge depositor bases. They are being joined by the big UK clearing banks now that repo is allowed in the UK government bond (gilts) market.

European and Scandinavian central banks are also large providers of liquidity to the repo market, which they use to increase the return on their foreign exchange reserves.

Bankers marketing repo to institutional investors and corporate treasurers as an alternative to the money markets are delighted that central banks are so active in repo. "The fact that so many central banks engage in repo has given the market respectability and that is a great selling point," says one banker.

The have-nots are the investment banks which need the repo market to finance their trading positions in the bond markets.

They do this by either raising cash using their bond inventory as collateral to fund their long positions or by borrowing stock to cover their short positions. According to market estimates, funding long positions accounts for 70 per cent of repo transactions while the remainder is to cover shorts.

Since repo began in the US in the mid-1980s, the big US investment banks had a head start when repo started in Europe. Although individual markets have their local characteristics, the methodology is based on US practice. As a result, Goldman Sachs, Salomon Brothers, CS First Boston, Lehman Brothers, Merrill Lynch and Morgan Stanley are all active operators.

Also in the "have-nots" camp, are the so-called "leveraged customers", more commonly known as hedge funds. They typically repo out their bond inventory as many as 100 times to get maximum exposure to the bond markets.

In 1993, when bond markets around the world were rallying, hedge funds were big users of the repo market to fund their long positions. Since 1994, when the sudden fall in bond markets caught them out, they have been less active.

Then there are the specialist brokers which have carved out a niche for themselves between the two camps. Since they trade as principal, they provide much-needed anonymity to borrowers and lenders in the repo market.

"If you want to repo a sensitive position, such as funding a long position or covering a short position, then you don't want the whole market to know about it," says one dealer.

When the Bank of England gave the green light to gilt repos, many believed that the big banks would squeeze out the Stock Exchange Money Brokers (SEMBs), the traditional lenders of stock to the gilts market.

For those without critical mass, such an end is probably inevitable. However, some are seeking expertise in other markets to make up for the greater competition in the gilts market.

Also, since they can have long-standing relationships with institutions which lend out stock, they have one advantage over the new entrants – they know where to go for "special issues," that is when the market goes short of a certain stock.

A less obvious, but vital participant in the repo market is Euroclear, the Brussels-based bond clearance system. Repo operators have an account with Euroclear so that their repo transactions can be settled automatically. Of Euroclear's total turnover of $25,000bn in 1995, settlement of repo transactions accounted for one-third.

Euroclear also offers a fully-automated service for tri-party repo, that is when the dealer and the cash lender enter into a repo and use a third party to monitor the trade. Last year, Euroclear's average daily turnover of tri-party repo was about $10bn a day, though it rose to an average of $14bn in January.

One large but as yet untapped group of participants in the European repo markets is Europe's corporate treasurers.

They have traditionally deposited their excess cash with their bankers or in the money markets.

In the US, corporate treasurers are more pro-active than their European counterparts when it comes to cash management, perhaps spurred on by the fall in confidence in the US banking system. They have become regular users of repo in recent years.

While confidence in Europe's banking system is firm, recent events such as the collapse of BCCI and Barings have shaken that confidence.

Repo operators believe that corporate treasurers will seek alternative markets to place their cash.

"As liquidity improves in the repo market and treasurers become more aware, then more cash will go into repo than in the money markets," predicts one dealer.

The UK clearers must believe that such a prediction is likely to come true. BZW and NatWest, which between them control the rates in the UK money markets, have both set up repo desks ahead of gilt repo so that they do not lose their existing investor base for unsecured deposits.

However, according to market estimates the more efficient foreign banks have amassed a greater share than their UK competitors in the gilt repo market since it began in January. Deutsche Bank is believed to conduct about one-quarter of gilt repo transactions.

In the long run, the demarcation between the two camps in the repo market is expected to disappear gradually. For now, the European banks seem to be in a stronger position than their US counterparts because they have the excess liquidity in a market where cash is king.

Money markets: by Philip Gawith

Gilt repo may hasten change

Observers believe the Bank should move towards using a more successful intervention instrument

The introduction of a gilt repo market has been accompanied by a deluge of publicity, most of it about stock lending. But repo bridges the gap between bond and money markets, and it may be that the more enduring legacy of the gilt repo proves to be its evolution into the Bank of England's daily *instrument of intervention* in the sterling money market.

This has long been one of the more obscure provinces of the City, effectively out of bounds to most foreign companies, but the advent of the gilt repo market could well change this.

In recent years, three aspects of the sterling money market have attracted frequent comment. First, UK short rates have often been much more volatile than in other leading markets. Second, and related, the Bank of England has had far fewer counterparties through which to implement its monetary policy than is the case in other markets. In particular, two clearing banks, NatWest and Barclays, have held most of the eligible bills of exchange, and this has given them considerable influence in determining short-dated cash rates.

Third, the Bank of England's money market operations stood out from those of the US Federal Reserve, Bundesbank and Banque de France which were conducted less frequently, utilised only repurchase transactions, and were spread over a wide range of financial institutions.

Many observers believe that the Bank of England should move towards using the repo on the grounds that it is a more successful intervention instrument. But there is a further reason, too; *it is most likely to be the modus operandi of a future single European central bank*, and the UK will want, as far as possible, to harmonise its practices with Europe. Discussing the intervention policies of the future European central bank, Hans Tietmeyer, the Bundesbank president, said last week that "a leading role will be played by open-market policy in the form of repo operations. It combines market proximity with flexibility of use".

The Bank of England has so far been non-committal about its intentions. When the market opened, it said that "it did not have plans to change the form of its money market operations", but that the development of gilt repo trading "could make it sensible to contemplate change later".

This approach is to be expected, as the Bank wants the market to take the lead, not the other way round. Put differently, *if* the gilt repo market becomes very liquid, *then* it would make sense for the Bank to use repo as a means of intervention. But the Bank of England does not want to preordain this outcome – which is what would happen if it declared itself in favour of repo, because liquidity would then inevitably switch to this market.

Market participants believe it is a question of when, not if, the switch towards repo is made. One market participant believes the Bank will start to take informal soundings on the question as early as the end of the second quarter. At the moment the Bank is keeping in close contact with traders about how the market is behaving.

It is also requiring repo participants to provide fairly detailed reports of the business they are doing, under such headings as outstandings, volume, counterparties, and classic repo vs buy/sell-back.

From the perspective of Paul Tucker, the man responsible for the Bank of England's money market activities, the repo market's development is likely to be assessed as "promising, but could still do better". Liquidity is the key issue, and this embraces such various benchmarks as the volume of repo traded, the number of counterparties and the tightness of the spreads.

On many of these counts progress has been quite good. In terms of volume, the gilt repo market is estimated to have grown to around £30bn-40bn outstandings. Although this is small compared to the volume of total gilt issues outstanding, it is perhaps twice the size of the end-of-day liquidity available in the cash market.

The number of counterparties remains fairly limited, with anecdotal evidence suggesting the market is still dominated by around 20-25 institutions – mostly the gilt-edged market-makers (Gemms), other intermediaries from the gilt market and institutions with prior experience of the international repo market. US investment houses have been cited as particularly active participants, especially in pursuit of cheaper funding.

Bid-offer spreads, however, of around five basis points, are quite tight, and the market is quite actively traded.

But by some other frames of reference, the market shows its youth. It is not yet, for example, being used by corporates with surplus cash available in preference to the deposit markets.

Traders also say that it has yet to become the market in which people choose to express their interest rate expectations.

"The majority of interest rate views will still be taken in the cash market," says one. The repo rate is still a "passive" rate, priced off other rates in the cash market, rather than a primary objective of attention itself.